Speech

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CFO TUI AG

at the Annual General Meeting

on 11 February 2020

– Check against delivery –

Thank you very much, Mr Joussen.

Good morning, Ladies and Gentlemen,

Let me also welcome you very warmly to our Annual General Meeting.

As Fritz Joussen has already mentioned in his presentation –
In financial year 2019, we faced special challenges resulting from the effects of external factors on our business.

Chart 2: Successful strategic transformation and resilient business model deliver strong results in a challenging market environment

The good news is that our hotels and cruises continued to deliver a very positive performance in financial year 2019.

By contrast, our Markets & Airlines business was strongly impacted by the market environment and in particular the grounding of the Boeing 737 Max announced in March 2019. As a result, we had to update our earnings guidance for financial year 2019 in two steps.

On 6 February 2019, we lowered our earnings guidance for financial year 2019 to the level delivered in financial year 2018. The reasons were

- a later booking behaviour as a result of the heatwave in Summer 2018,
- overcapacity in the aviation sector,
- a shift in demand from the western to the eastern Mediterranean, and
- the uncertainty surrounding Brexit and the weakness of pound sterling.

On 29 March 2019, we had to once again update our earnings guidance for financial year 2019 due to the grounding of the Boeing 737 Max.

Unfortunately, we were unable to operate that aircraft type throughout the remainder of financial year 2019. This resulted in

- one-off costs for replacement aircraft,
- higher fuel costs,
- costs in connection with business interruptions, and
- negative impacts on our operating business.

Overall, one-off costs of around 290 million euros were incurred, resulting in a decline in underlying EBITA for financial year 2019 of around 26 per cent.

Despite continued challenges, we met our updated underlying EBITA guidance. For all other indicators, we even delivered our original targets. This applies in particular to our free cash flow and net debt. Our Group's leverage ratio also remains within the long-term range we are seeking to achieve at a factor of 3.0x. As a result, we largely offset the adverse impacts in Market & Airlines.

Chart 3: Income statement

Let me now first of all present the key indicators for financial year 2019.

TUI Group's underlying EBITA declined by nearly 22 per cent to around 893 million euros in financial year 2019. On a constant currency basis, it was down by nearly 26 per cent. Our performance was thus in line with our updated earnings guidance for financial year 2019.

I have already mentioned the challenging market environment: Here, our Holiday Experiences business, i.e. our hotels and cruise ships as well as our excursions and activities business, continued to deliver a very good performance. Due to our diversified positioning, we offset the normalisation in demand for our Spanish hotels through higher occupancies in our hotels in North Africa and Turkey.

By contrast, our Markets & Airlines delivered a weaker performance than originally expected. The business posted an adverse impact of around 290 million euros, in particular attributable to the grounding of the Boeing 737 Max.

Our Group's turnover grew by 2.7 per cent year-on-year to 18.9 billion euros. It was thus in line with our expectations. Excluding Hotelbeds Group, acquired from Destination Management, as well as Musement, acquired in financial year 2018, turnover would have matched the prior year's level.

In the financial year under review, the one-off effects carried as adjustments in underlying EBITA matched our expectations at around 125 million euros.

The Group's net interest expense declined by around 12 million euros to 77 million euros. As in the previous year, this amount included one-off interest income. In determining underlying earnings per share, we eliminated these effects for both years.

At 691 million euros, our earnings before tax were down by around 275 million euros. This was mainly attributable to the grounding of the Boeing 737 Max.

The reported tax rate rose slightly year-on-year in 2019. This was attributable to the revaluation of tax loss carryforwards. The Group's underlying tax rate declined by two additional percentage points year-on-year to 18 per cent from 20 per cent. This was driven by the further increase in the relative profit contribution from Holiday Experiences.

Earnings from continuing operations totalled around 532 million euros in the completed financial year.

In financial year 2019, the Group did not hold any discontinued operations. In the prior year, it had generated a gain in connection with the sale of Hotelbeds Group.

Consolidated earnings included an amount of around 116 million euros attributable to non-controlling interests, primarily relating to Riu Group.

Group earnings after non-controlling interests attributable to TUI's shareholders amounted to 416 million euros.

At 89 cents, our underlying earnings per share declined by 23 per cent year-on-year, in line with the operational development in the financial year under review.

So much for my comments on our income statement.
Let me now briefly present our financial stability indicators.

Chart 4: Financial stability – Target leverage ratio remains in the range of 3.0x – 2.25x

As you know, we used the proceeds from the disvestments of non-core businesses [Hotelbeds, Travelopia and Hapag-Lloyd Containerlinie] obtained in prior years in order to further refinance our growth in the hotel and cruise businesses in the financial year under review. As a result, the Group's net liquidity carried as at the end of financial year 2019 decreased in line with expectations in 2019. At the end of financial year 2019, the Group's net debt totalled around 0.9 billion euros.

At a factor of 3.0x, our leverage ratio was within our long-term target range (factor of 2.25x to 3.0x). The slight year-on-year increase in the factor is mainly attributable to the cost resulting from the grounding of our Boeing 737 Max. Excluding this special effect, the leverage ratio would have matched the prior year's level at 2.7 per cent, despite the continued implementation of our investment programme.

The Group's imputed equity ratio as at 30 September 2019 totalled 25.6 per cent, down nearly two percentage points year-on-year.

The external rating of the Group by the two rating agencies Standard & Poors and Moody's remained unchanged in the period under review. However, in December, Moody's adjusted its rating due to the uncertainty surrounding the grounding of the Boeing 737 Max. Our current S&P rating is therefore BB, while our rating by Moody's is Ba3, both with negative outlook.
We are engaged in very good dialogue with the rating agencies and have initiated internal measures in order to further strengthen our financial profile. These measures also include our revised dividend policy, which I will present in greater detail on the next few slides. Of course, we are unable to fully decouple from the development of external framework parameters.

Chart 5: Proposal for financial year 2019:

Dividend of 54 cents per share

Let me first of all explain our dividend proposal for the completed financial year and our updated dividend policy to you.

Based on the dividend of 72 cents per TUI AG share paid in the previous financial year and a decline in our operating result of nearly 26 per cent, we are proposing to distribute a dividend of 54 cents per share for the completed financial year.

Chart 6: New capital allocation framework

Against the background of the further transformation of our Group we are aspiring to implement, we have developed a new capital allocation framework. It defines the following order for the allocation of funds:

(i) First and foremost, we are planning to continue our organic growth in our hotel and cruise businesses. One of the ways to deliver that growth is by cooperating with our joint venture partners.

On the other hand, we are planning to significantly expand our digital platforms, as Fritz Joussen has already explained.

(ii) We are planning to continue to distribute a reliable and attractive dividend to you, our shareholders.

(iii) The third pillar of our capital allocation framework is the optimisation of our current portfolio of investments, for instance through value-enhancing mergers or acquisitions. A good example in this regard is the integration of Hapag-Lloyd Cruises into TUI Cruises already mentioned by Fritz Joussen.

(iv) Should our Group sustainably have more liquidity available in future than is required to deliver the priorities I have mentioned, we will distribute that excess liquidity to you, our shareholders.

At the same time, we will pursue a disciplined approach in maintaining a robust balance sheet. We are therefore aiming to achieve a comfortable leverage ratio in the range of 2.25x to 3.0x.

The realignment of our capital allocation provides TUI Group with greater flexiblity. It facilitates investments in our strategic initatives and future growth opportunities, plus an attractive dividend for our shareholders. At the same time, the framework will be underpinned by a resilient and robust financial structure.

Chart 7: Updated dividend policy in the framework of the new capital allocation

From financial year 2020, we will propose distribution of a core dividend to you. The payout of the new dividend will amount to 30 to 40 per cent of the Group's underlying Group EAT[1] attributable to TUI AG shareholders; however, the dividend floor will be 35 cents per share.

[1] Underlying Group profit ("EAT" after non-controlling interests at constant currency is calculated as underlying EBIT minus interest result adjusted for one-off items minus tax based on underlying tax rate of currently 18% minus non-controlling interests adjusted for one-off effects.

Our new dividend policy will result in lower payouts. The dividend floor of 35 cents per share will guarantee a minimum payout. As our shareholders, you will receive this minimum payout regardless of the development of the tourism market environment. Based on TUI's share price at the end of financial year 2019, the dividend floor would represent a dividend yield of 3.3 per cent. We are convinced that a core dividend in combination with a dividend floor constitutes an attractive and balanced dividend policy for TUI and for you as our shareholders.

Chart 8: Outlook for financial year 2020

This takes me to our current business performance in the first quarter of the current financial year and our assessment for the full year 2020.

Let me start my sharing a technical comment. As other groups, we are applying the new accounting standard IFRS 16 on accounting for leases in financial year 2020 for the first time. You will find a detailed description in our Annual Report. As we will not retrospectively adjust our results for the completed financial year 2019, our disclosures for financial year 2020 will always additionally state how our indicators would have developed if we had not applied IFRS 16. In the interest of enhanced comparability, we have also prepared our guidance for financial year 2020 excluding the effects of the initial application of the new standard.

Our outlook currently does not include any effects from the sale of Hapag-Lloyd Cruises to TUI Cruises, aimed at accelerating the growth of our luxury brand Hapag-Lloyd.

From financial year 2020, we are also using the earnings indicator "underlying EBIT", which is more customary at the international level. It replaces the previously used indicator "underlying EBITA".

In the first quarter of the new financial year 2020, the Group's underlying EBIT decreased by around 64 million euros year-on-year to a seasonal loss of minus 147 million euros. This amount includes the cost of 45 million euros from the grounding of the Boeing 737 Max. We therefore started into the new financial year with a year-on-year decline in our performance, as expected.

In the first quarter, we recorded an uplift in bookings for our Winter programme. Our Markets & Airlines business therefore delivered a stable result, excluding the costs resulting from the grounding of the 737 Max. Moreover, the prior year's result had included a positive one-off gain from the reversal of a currency hedge. Excluding that gain, our operational performance was even clearly positive.

The Holiday Experiences business recorded a year-on-year decline in quarterly results in the Hotels & Resorts segment. This was mainly attributable to higher costs arising from the increasing number of hotels in our growing portfolio that were closed in the Winter season. In the Cruises segment, TUI Cruises benefited significantly from the prior year's capacity expansion, while Marella Cruises posted a year-on-year decline due to higher costs and Hapag-Lloyd Cruises reported a decline as a number of ships were in dry dock.
Let me now turn to the outlook for financial year 2020, now started.

Presuming that the currently strong booking trends for our Markets & Airlines business continue, we now expect turnover to grow in the high single-digit percentage range.

On the basis of our guidance published in December 2019, presuming the Boeing 737 Max was going to return to service by the end of April 2020, this would have corresponded to the upper end of the underlying EBIT range of around 950 million euros to 1,050 million euros, already including costs of around 130 million euros from the grounding of the Boeing 737 Max.

In the light of the most recent official announcement made by Boeing, we have now secured replacement capacity for the full financial year 2020. This is in line with the second scenario of our guidance of December 2019. We decreased the range of the additional costs resulting fom the grounding of the Boeing 737 Max by 25 million euros to 220 million euros to 245 million euros by the end of the current financial year.

Moreover, we have not fully included these additional costs resulting from the Boeing grounding in our updated guidance range as we expect to be able to partly offset these effects through

- the currently strong trading performance,
- cost measures, and
- some compensation from Boeing.

As before, the range indicated in our guidance also comprises costs in the mid- to high double-digit million range for the expansion of our digital platforms.

On that basis, we are updating our guidance and now expect underlying EBIT to be in the range of around 850 million euros to 1,050 million euros.

Please allow me to make a short comment at this point: The grounding places a significant burden on TUI, which we are unable to influence in the short term. However, what we can do as a Company is to launch countermeasures aimed at minimising the effects of the grounding on our cash flow and financial profile. We are working hard to achieve that goal.

Our guidance also includes expenses for the expansion of our digital platforms in the mid- to high double-digit million range. These are the initiatives Fritz Joussen has presented in detail.

By way of conclusion, let me make a short comment on the coronavirus: We currently do not expect the virus to have any major effects on our outlook, as we only have minor activities in the regions affected. Of course, we are closely observing the developments in order to be able to ensure the safety of our customers and employees at any time.

The expected further development of TUI Group in this challenging market environment reflects the successful transformation as an integrated provider of holiday experiences. Our strategic positioning combines our own hotel and cruise brands with strong omni-channel distribution capacity. We are diversified across markets and destinations. In the forthcoming financial year, we will focus on further increasing our competitiveness, selectively expanding our Holiday Experiences business and developing our digital platforms in new markets and destinations.

Ladies and Gentlemen,

By way of conclusion, please allow me to make a few comments on the authorisation proposed for approval by the Annual General Meeting under Agenda Item 6.

Chart 9: Agenda Item 6

As in previous years, we are asking you for your approval of a resolution on the acquisition and use of own shares.

The purpose of this resolution proposal is to secure the Group's financial scope. Combined with the existing further authorisations, this will enable us to quickly and flexibly adjust our capital resources to our financial requirements.

In accordance with Agenda Item 6, the term of the proposed authorisation will again be 18 months; however, acquisition transactions under contract law may only be concluded in the period before our Annual General Meeting 2021. In the past 12 months, the Company did not use the existing authorisation and did not acquire any TUI shares. The Company therefore does not carry any own shares.

The new authorisation to acquire own shares is limited to the lower of 5 per cent of the capital stock, or at most around 29.5 million shares in the Company, which can be acquired via the stock market or a public bid to the shareholders. The principle of equality under Stock Corporation Law has to be observed.

Apart from the requirements under the Stock Corporation Law, the resolution proposal also takes account of deliverables resulting from the quotation of the TUI share at the London Stock Exchange and the corporate governance standards applicable in the UK. This applies in particular to the caps and floors for the purchase price payment when acquiring own shares.

The Group does not currently intend to acquire any own shares. If the Annual General Meeting approves the proposed authorisation, the Executive Board will examine use of that option from time to time. The option will only be used if the Executive Board is convinced that this is in the interest of the Company as well as all shareholders.

Generally, the Executive Board will only exercise the authorisations entailing the possibility of excluding the subscription right for the issue of new shares or the use of previously acquired own shares with the consent of the Supervisory Board and if the strict requirements for the exclusion of the subscription right stipulated by the German Stock Corporation Act are met.

We are asking you for your approval of this resolution proposal.

Thank you very much for your attention.