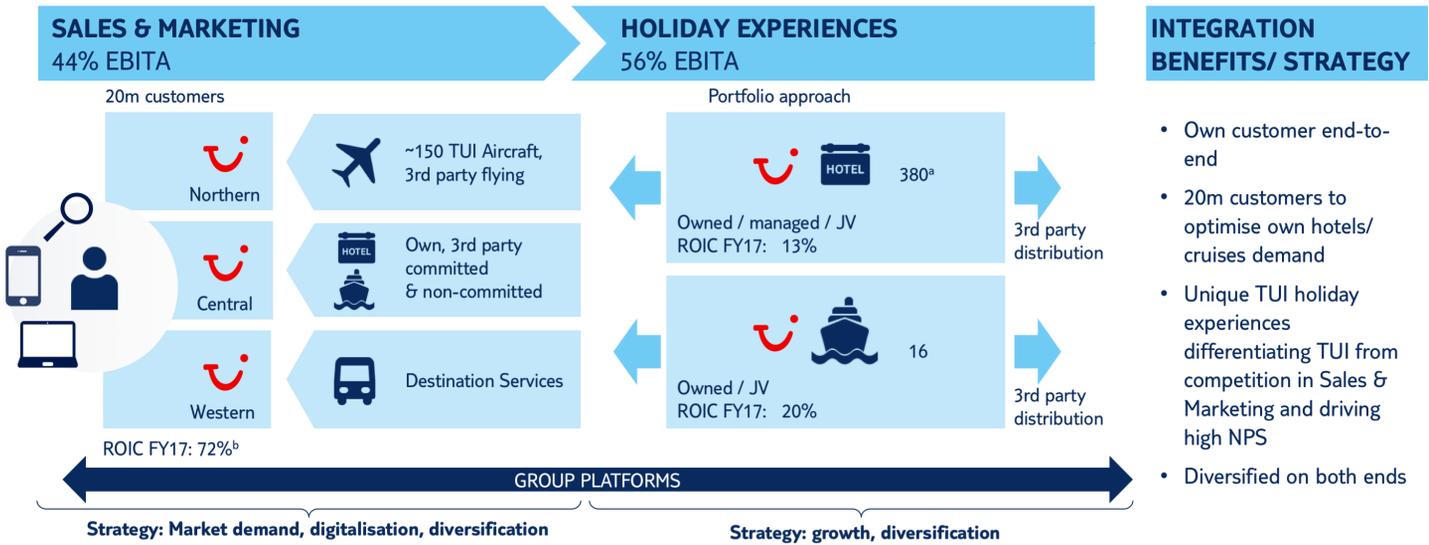


# Business model and strategy



<sup>a</sup> This number includes concept hotels and 3<sup>rd</sup> party concept hotels

<sup>b</sup> This number relates to Sales & Marketing/ all other

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## Our Business Model

TUI is the world's leading tourism group – an integrated business that operates in all stages of the customer's holiday journey.

We deliver the full customer experience from inspiration and booking through the travel journey to the experience in the destination. We fulfil this through our own hotel and cruise brands, third party committed and non-committed accommodation as well as destination services, such as transfers and excursions. Hence, we set ourselves apart from component-only players as we are able to enhance the customer experience throughout the holiday.

Our integrated model allows us to leverage the distribution power of our source markets and to optimise customer volumes for our own assets. At the same time, offering differentiated and controlled products, we drive demand in our source markets and create entry barriers. Thus, we maximise yields while minimising risk with our integrated approach.

## Our Segment Strategy

*Sales & Marketing: Market demand, digitalisation and diversification*

Across three regions (Northern, Central and Western) we use our distribution and fulfilment power to serve 20m customers. Our business model allows our source markets to act with maximum flexibility, allowing them to create personalised packages for our customers while optimising yield and minimising risks through combining both owned as well as 3rd party aviation, hotel and cruise capacity.

## Our Employees

Qualified and committed employees are a major prerequisite for TUI's long-term success. One of the key elements of our global HR strategy, therefore, is to attract and promote people with talent and to retain them by offering attractive employment conditions.

It is our staff who breathe life into our corporate values 'Trusted', 'Unique' and 'Inspiring'. Alongside our vision and our customer promise, they form the basis for our attitudes and actions.

Our employee survey TUIgether, which was carried out in the period under review is a crucial yardstick, showing us our strengths and areas for potential improvements, so that we can improve the corporate performance and make TUI an even more attractive employer. The survey measures the Engagement Index of TUI Group, which is 77 in this year's cycle.

Further information about our employees and our sustainability strategy can be found on page 81.

Our in-house aviation with around 150 aircraft allows us to utilise own flight capacity in conjunction with own hotel capacity in order to build high profile destinations, such as Cape Verde. In these destinations, we provide unique experiences to our customers and create high barriers of entry by managing both hotel capacity and flight availability. In addition, our airline allows for flexibility in destination planning, as we are in the position to shift capacities and change routes according to our business needs.

Destination Services, our own incoming agency, provides fulfilment services to our customers such as hotel transfers but also offers experiences in the destinations such as excursions.

Our Sales and Marketing business is well positioned to benefit from continued tourism market growth. In 2017 we have accelerated our digitalisation efforts and inter alia launched two important IT-initiatives: One CRM and One Inventory Base & One Purchasing.

Customer knowledge is key to provide outstanding holiday experiences that result in satisfied and loyal customers. One CRM, building on a shared customer data base drives our knowledge of our customers and therefore enables us to build direct and personalised relationships. Using automated machine learning and analytical capabilities, we share our customer insights with the wider business and enable personalised marketing, sales and services. We are now able to provide individualised experiences, which in turn are expected to lead to cross- and up-selling opportunities. Last but not least, we develop retention propositions based on our enhanced knowledge, thereby driving emotional loyalty and engagement with our brand.

Building on the Blockchain technology, we are striving to centralise our inventory on one database, namely, One Inventory. Own and third party hotel bed capacity is being incorporated in the data base, which is accessible for all source markets. An Artificial Intelligence system creates suggestions on the respective bed capacity allocation and/or bed swap to the source markets based on customer demand, allowing TUI to optimise yields. Blockchain as an underlying technology ensures transparency and trust as well as an immutable tracking of

ownership. Suppliers can be on-boarded easily, including new partners from all over the world.

### *Holiday experiences: Grow and diversify in the hotel and cruise business*

TUI's hotel portfolio entails 380 hotels, operating under a concept, ownership, lease, management or franchise model. We differentiate with our own brands Robinson, TUI Magic Life and TUI Blue, as well as with our successful joint venture brands, such as Riu. TUI branded hotels show high customer satisfaction and revenue per customer, signalling the attractiveness to our customers.

Since the merger we concluded three non-core business disposals, namely Travelopia, Hotelbeds and the shareholding in Hapag-Lloyd AG. We intend to reinvest the disposal proceeds mainly into our hotel and cruise business, thereby further growing and diversifying our portfolio and pursuing on average a target ROIC of 15 % for new investments. Redeploying capital to our holiday experience businesses will enhance our capital return and will reduce the cyclicity of our cash flow profile.

On the hotel side, in line with our existing portfolio, we intend to grow predominantly our low capital intensity share, i.e. through management contracts or through Joint Ventures. In unique destinations or in destinations with an all-year round business, we perceive ownership to be a superior strategy.

Further, we focus on diversifying our portfolio geographically by growing our Caribbean and Asian destinations, while strengthening our core destinations in Europe.

In our cruise segment, we operate a fleet of 16 cruise ships under three cruise lines, namely our TUI Cruises Joint Venture, Marella Cruises and Hapag-Lloyd Cruises. Each cruise business is dedicated to a specific audience and tailors its concept accordingly, with TUI

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Cruises and Marella Cruises focusing on local mainstream customers and Hapag-Lloyd offering luxury and expedition experiences.

The demand in our distinct market segments relevant for our target customers remains very strong. Despite capacity growth, occupancy of our cruise ships remains at above 100 % in the mainstream market at stable prices, allowing us to further enhance capacity by expanding our fleet.

## Summary

Three years after the merger, we are a stronger, integrated and strategically better positioned business. The merger synergies are fully delivered.

Looking ahead we continue to expect to deliver double digit annual earnings growth with less seasonality, strong cash conversion<sup>1</sup> and strong ROIC performance. This will be driven by market demand, digitalisation benefits and disciplined expansion of own hotel and cruise content.

We therefore expect to deliver at least 10 % growth in underlying EBITA in financial year 2018<sup>2</sup> and extend our previous guidance of at least 10 % underlying EBITA CAGR to financial year 2020<sup>1</sup>.

The Executive Board and the Supervisory Board are recommending a dividend of 65 cents per share in respect of the financial year 2017. Subject to approval at the Annual General Meeting on 13 February 2018, shareholders who held relevant shares at close of business on 13 February 2018 will receive the dividend on 16 February 2018.

Further financial targets are achieving a leverage ratio 3.00 to 2.25 times and an interest coverage 5.75 to 6.75 times.

<sup>1</sup> We define our cash conversion as the Group's EBITDA less our long-term gross capex target in relation to the Group's EBITDA.

<sup>2</sup> Assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current Group structure.