

TUI GROUP STRATEGY

Overall strategy

TUI recorded a strong start to the financial year, breaking TUI's January booking records for the summer 2020 programme since the merger of TUI AG and TUI Travel PLC.¹ However, governmental measures taken in March to fight the spread of the COVID-19-pandemic forced an immediate stop of most of our business activities, leading to a sharp increase in booking cancellations and customer refunds, ultimately resulting in a liquidity squeeze for the business. Nevertheless, even during the COVID-19 crisis market fundamentals with underlying customer demand remain intact. This was evident due to the strong return of holiday bookings in June and July, after some travel restrictions were lifted.² Due to the emergence of a second COVID-19 wave heading into the Winter 2020 programme, the number of European destinations available for international travel are limited once again, including for example Greece and Portugal. Renewed governmental health measures with corresponding restrictions impede resumption of business activities in most parts of the international tourism sector, including hotels and cruises, resulting in low revenue potential.³ At the same time, a recovery of travel is predicted for the financial year 2021.⁴ TUI's brand advantage, recognised for safety and service quality⁵, as well as its worldwide presence in our international destinations should enable TUI to satisfy the strong underlying consumer demand.² As soon as vaccinations, currently submitted for approval, are available for administration to the necessary extent, travel restrictions are expected to be lifted imminently. This would enable a substantial and fast recovery of our business. According to the German Federal Ministry of Health, it is expected that first vaccinations will be available to the public towards the end of 2020, beginning of 2021. This should result in a more relaxed state and resumption of normal everyday life in many parts of our society.

TUI's integrated business model continues to be considered a success factor for the long term and remains a core element of our strategy. Our focus on end-to-end delivery of safe holidays across the entire customer journey, has benefitted the partial recommencement of operations for Summer 2020. Destinations have recognised this strength of TUI's, as the governments of Greece and the Balearics have selected TUI to implement pilot programs in Summer 2020 aimed at restarting tourism in their regions.

¹ 14% growth in booking performance as of January 2020 compared to January 2019 booking progress

² 3.3 m bookings recorded since global travel bans were partially lifted (data from 1st of June to 1st of November)

³ 2.4 m Summer 2020 bookings, compared to 12.7 m bookings for the previous summer (data as at 2 August 2020)

⁴ 72% increase of world tourist arrivals expected for 2021 compared to 2020

⁵ Awarded for accomplishment of highest health and safety standards amongst global hotel brands (10 November 2020) – <https://www.intertek.com/news/2020/11-10-intertek-cristal-awards-tui-group-best-global-hotel-brand/>

Markets & Airlines: Accelerate realignment programme to emerge leaner, stronger, more flexible and digital from the crisis

In the Markets & Airlines sector, we are focusing on improving our cost position while driving innovation speed and flexibility. This shall be delivered by establishing more centralised processes and technology, the core elements of our Markets Transformation & Domaining initiative. This should allow us to further expand our product offering beyond traditional packages into attractive growth segments like accommodation only, seat only as well as dynamic package. The expansion runs parallel to efforts geared towards remaining competitive and maintaining our leading positions in the traditional packaging market. Another focus point in the Airlines segment is the strengthening of our competitiveness and positioning via careful management of our airline capacity.

The initiative expands the ecosystem for TUI as well as our customers and partners. Building on the extended ecosystem, our CRM systems are set up to support digital up-⁶ and cross-selling⁷ and will focus on customer retention within the TUI world. Against the background the pandemic's impact, the Transformation & Domaining initiative has increased in terms of relevance and pace. Through our global realignment programme, we target to permanently reduce over €300 m of fixed costs p. a., with a large proportion allocated to the Markets & Airlines business. To achieve this, we are now accelerating our transformation by merging tasks and functions across the group, as well as consolidating our global IT structures. In parallel, we are rightsizing⁸ our airlines and aircraft order book. These measures have already commenced across all markets. For example, in TUI fly Germany, the target is to reduce the number of aircrafts by around 50% from 39 in the next three years, as well as a consolidation of departure airports. For the Markets & Airlines segment, we are seeking to divest and/or restructure non-profitable activities.

⁶ Up-selling: selling upgrades to a product (e.g. better flight class, room class, higher tier service, etc.)

⁷ Cross-selling: selling complementary or additional products from the TUI range

⁸ Adapting in-house capacity to fit needs of source market TOs and market environment

Hotels & Cruises: asset-right expansion and transformation, driving returns, benefitting from vertical integration

With 433 hotels⁹ and 17 cruise vessels as at 30 September 2020, we have built a sizeable leisure hotel and cruise business. Our integrated model allows us to leverage the distribution power in the Markets & Airlines business to drive customers into our own Hotels and Cruises. In the future, our capital intensity will be reduced compared to our investment spending in recent years. We announced an asset-right strategy in December 2019 and are executing on this initiative consistently – as exemplified by the continual increase of the proportion of assets in our portfolio operated through management contracts or franchises. In our hotels business, combining the rebalancing of our portfolio in favor of management and franchise contracts and leveraging our joint venture structures, gives us optionality for asset-right growth. The customer relevant aspects – including sales, brand, hotel concepts and experience in the destination – will still be controlled by TUI, regardless of the type of contract in place. In our cruise segment, we are leveraging our joint ventures structures to grow while simultaneously reducing capital intensity. This is exemplified by the successful disposal of Hapag-Lloyd Kreuzfahrten to the joint venture TUI Cruises. In addition, we are in the process of future proofing our UK cruise business through repositioning and modernization of its fleet.¹⁰

⁹ Including third-party hotelier operations

¹⁰ Fleet modernisation via retirement of two oldest ships (Celebration and Dream) and leverage joint entity structure to drive synergies

TUI Musement platform: building scale in the “things to do” market and attracting customers to join the TUI eco-system

In the tours and activities market, TUI has built – on the back of the Musement acquisition – a scalable platform with approximately 168 thousand products as at 30 September 2020. Our business model is based on a two-sided – holidaymaker and provider – open platform. On the distribution side, TUI is focusing on growth in B2B distribution via strategic cooperations – as exemplified by the agreement with Booking.com – as well as growth of offering for our own customer base. On the product side, TUI aims to expand its offering through consolidation of products in the market in order to maintain its position as one of the largest product providers¹¹ in the sizeable and fast growing Tours & Activities market.

¹¹ List of number of activities by some of the biggest providers in the Tours & Activities market: Airbnb with 30k (<https://news.airbnb.com/airbnb-experiences-update/>), GetYourGuide with 60k (<https://www.countervor9.de/vertrieb/paxconnect-macht-touren-von-get-your-guide-buchbar>) and Viator with 200k (<https://www.viator.com/de-DE/support/about>)

Our environment

For TUI Group, economic, environmental and social sustainability is a cornerstone of our strategy for continually enhancing the value of our Company. This is the way we want to create the conditions for longterm economic success and assume responsibility for sustainable business transformation in the tourism sector.

The goals we set ourselves in our sustainability strategy include 'Step lightly', where we aim to reduce the environmental impact of our business operations and to fix goals for improvements in all Group areas.

In financial year 2020, TUI Group's total emissions decreased year-on-year in absolute terms, primarily due to the COVID-19 crisis. Relative carbon emissions across our airlines increased by 4.0% in the financial year 2020 to 67.8 g/rpk (previous year 65.2 g/rpk). This has been caused by the grounding of our fleet due to the COVID-19 crisis. TUI continues to operate one of Europe's most carbon-efficient airline fleet and continually seeks to deliver further improvements.

Our goal: We will operate the most carbon-efficient airlines in Europe and cut the carbon intensity of our operations by 10% by 2020 (baseline year 2014, 67.56 g CO₂ / PKM). Unfortunately with the grounding of the Boeing 737 Max and the deliveries that were scheduled, this has significantly impacted progress against our aviation carbon target. Furthermore COVID-19 has had a negative impact on this relative key performance indicator. Since our baseline year 2014, we improved carbon efficiency by 3.6% up to 2019. However, as a result of COVID-19 impacting flying operations in 2020 there was an increase of 0.4% compared to 2014.

[→ Details see page 77.](#)

Our employees

COVID-19 poses exceptional challenges for TUI Group and above all our employees. Many of our employees, for instance, are on short-time work benefit schemes or other state-supported programmes aimed at saving jobs. The contact and travel restrictions associated with the pandemic have made new demands on our staff in their day-to-day local and cross-border cooperation. We have therefore had to enhance the global alignment and networking of our markets, systems and employees. In the financial year under review, the focus was on establishing appropriate central or international functions and teams. This will remain a key theme for our ongoing transformation. Communication, new cooperation formats and leadership behaviour have gained in importance in recent months. Due to the rapid, successful shift to mobile working in large parts of the Company, day-to-day cooperation has become more digital. The implementation of state-of-the-art, digital strategies offers our employees flexibility in their work and creates digital and individual freedom. By implementing these measures alongside other programmes, TUI Group is creating a work environment enabling our employees to remain fully and passionately committed to our Company even in these difficult times.

[→ Details see page 83.](#)