11 August 2016

TUI GROUP

9 month results to 30 June 2016

- Good Q3 performance, further demonstrating the resilience of our vertically integrated model, coupled with the delivery of our growth plans and merger synergies.
- Summer 2016 trading overall remains in line with our expectations.
- UK trading remains strong, no apparent slowdown in bookings as a result of the EU referendum.
- Well positioned to deliver at least 10% growth in underlying EBITA in 2015/16[1] and at least 10% underlying EBITA CAGR over the three years to 2017/18[1] as previously guided.

KEY FINANCIALS

Third quarter ended 30 June	**Underlying**			**Reported**	
€m	**2016**	2015 Restated[2]	**Change%**	2016	2015 Restated[2]
Turnover	**4,597.7**	4,876.0	**-5.7%**	4,597.7	4,876.0
EBITA	**180.0**	178.1	**+1.1%**	149.5	120.4
EBITA – at constant currency rates, excluding earlier timing of Easter[1]	**203.3**	178.1	**+14.1%**	173.5	120.4

Nine month period ended 30 June	**Underlying**			**Reported**	
€m	**2016**	2015 Restated[2]	**Change%**	2016	2015 Restated[2]
Turnover	**11,390.0**	11,488.1	**-0.9%**	11,390.0	11,488.1
EBITA	**-56.9**	-105.0	**+45.8%**	-138.8	-248.1
EBITA – at constant currency rates[1]	**-41.7**	-105.0	**+60.3%**	-123.2	-248.1

Note: In order to explain and evaluate the operating performance by the segments, EBITA adjusted for one-off effects (underlying EBITA) is presented. Underlying EBITA has been adjusted for gains/losses on disposal of investments, restructuring costs according to IAS 37, ancillary acquisition costs and conditional purchase price payments under purchase price allocations and other expenses for and income from one-off items. Reported EBITA comprises earnings before net interest result, income tax and impairment of goodwill excluding the losses on container shipping measured at equity and excluding the result from the measurement of interest hedges.

[1] Assuming constant foreign exchange rates are applied to the result in the current and prior period and treating Hotelbeds Group as discontinued operations

[2] Prior year figures restated, further explanation is included on page 8

Chief Executive of TUI Group, Friedrich Joussen, commented:

"We have delivered a good performance this quarter, driven by the strength of our vertically integrated model and the delivery of our growth plans and merger synergies. We are delivering on our strategy to become more content centric, with the launch this Summer of two cruise ships, TUI Discovery and Mein Schiff 5, and the opening of five additional hotels in our core brands. We have also announced the launch of TUI Discovery 2 for our UK cruise fleet from Summer 2017. In addition the disposal processes for Hotelbeds and Travelopia (formerly part of Specialist Group) remain on track, the proceeds from which will be used to invest in future growth opportunities and to further strengthen TUI's balance sheet.

Summer 2016 trading remains in line with our expectations, with 87% of the Source Markets' programme sold to date and sustained strong demand for holidays in the Western Mediterranean, long haul destinations and cruise. We are also pleased with the start to early trading for Winter 2016/17 and Summer 2017.

Given the resilience of demand for our holidays, hotels and cruises, the flexibility inherent in our business model, our balanced portfolio of businesses and destinations, and the strength of our balance sheet, we are well positioned to deal with the changing geopolitical and macroeconomic environment. We therefore remain confident of delivering at least 10% growth in underlying EBITA in 2015/16[1], and reiterate our previous guidance of at least 10% underlying EBITA CAGR over the three years to 2017/18[1]."

GOOD Q3 PERFORMANCE

In €m	Q3	9M
Underlying EBITA Q3 2014/15	**194**	**-78**
Prior year restatement (including Hotelbeds treated as discontinued)[2]	-16	-27
Underlying EBITA restated Q3 2014/15	**178**	**-105**
Underlying trading	+15	+26
Prior year - profit on disposal of Grecotel	-10	-10
Prior year - Tunisia	+10	+10
Merger synergies	+9	+24
New financing Europa 2	-	+5
Impact of aircraft financing	+1	+8
Underlying EBITA Q3 2015/16 excluding FX and Easter timing	**203**	**-42**
Timing impact of Easter	-12	-
Foreign exchange translation	-11	-15
Underlying EBITA Q3 2015/16	**180**	**-57**

- Results in the current and prior year have been restated to include Destination Services within Other Tourism and include Hotelbeds Group within discontinued operations, and to reclassify Crystal Ski and Thomson Lakes & Mountains from Specialist Group to Northern Region, as well as other changes to segmental reporting. For further explanation please see page 8.

- **Turnover** decreased by 5.7% to €4,598m (Q3 2014/15: €4,876m), or by 2.1% excluding the negative impact of foreign translation. Brand turnover (which includes the non-consolidated turnover of TUI Cruises and our Canadian strategic ventures) decreased by 4.9% to €5,167m (Q3 2014/15: €5,435m), or by 1.2% excluding the negative impact of foreign translation. The reduction in turnover was driven by Germany, Nordics and Belgium, with these Source Markets experiencing a more significant impact from lower demand due to geopolitical events, as well as the earlier timing of Easter.

- **Group underlying EBITA** for the quarter increased to €180m (Q3 2014/15: €178m), or €203m excluding the negative impact of foreign exchange translation and earlier timing of Easter.

- Within the **Source Markets**, underlying EBITA decreased to €85m (Q3 2014/15: €89m), but increased to €106m excluding €9m negative impact of foreign exchange translation and €12m impact from the earlier timing of Easter.

- **Northern Region** underlying EBITA reduced to €88m (Q3 2014/15: €103m), but increased to €104m excluding €9m negative impact of foreign exchange and €7m impact from the earlier timing of Easter:
    - UK continues to deliver a strong trading performance, with improved load factors and margins and the launch of the new cruise ship TUI Discovery in June 2016. The result benefits from the non-repeat of last year's repatriation costs following the tragic events in Tunisia. These were offset by the impact of the revaluation of maintenance reserves due to the lower UK gilt rate, and an increase in the claim rate for denied boarding compensation.
    - As expected, the Nordics result has been adversely impacted by lower demand for Turkey. Although this year's programme has been remixed to alternative destinations, this has not fully mitigated the impact, and we have experienced later booking patterns as a result, putting further pressure on lates trading. The result also includes costs in respect of the TUI brand migration which will take place in Autumn 2016.

- **Central Region** underlying EBITA increased to €3m (Q3 2014/15: €4m loss), or €5m excluding Easter:
    - Performance improved as a result of lower distribution costs and cost savings from restructuring programmes in Germany and Austria. We are continuing to increase our market share in Germany, despite challenging conditions.

- **Western Region** underlying EBITA loss reduced to €6m (Q3 2014/15: €10m loss), or €3m loss excluding Easter:
    - Result improved due to significant reduction in French operating losses and good performance in Netherlands, offset partly by the difficult trading environment in Belgium following the Brussels attack, particularly for package holiday sales.
    - We expect the acquisition of Transat's French tour operating business to complete by the end of October 2016.

- The Source Markets continue to build on their strength in direct distribution and relationship with the customer, with Q3 controlled distribution mix up four percentage points to 73% and online mix up four percentage points to 44%.

- In **Hotels & Resorts**, underlying EBITA was €57m (Q3 2014/15: €67m) or €59m excluding the negative impact of foreign exchange translation.
    - The prior year result included a €10m gain on disposal of Grecotel and, as expected, earnings for hotels in Turkey and North Africa have been adversely impacted by reduced demand following geopolitical events.
    - Riu delivered another strong quarter, with a 1% increase in capacity, 5% point improvement in occupancy and 3% increase in average revenue per bed, and a particularly strong performance in Spain, Cape Verde and long haul.
    - We have made further progress in delivering our occupancy improvement synergies, worth €4m in the quarter.
    - In line with our plans to grow our core brands, we have opened five additional hotels this Summer, and a further two were repositioned from other brands into TUI Blue.

- In **Cruises**, underlying EBITA increased to €29m (Q3 2014/15: €19m), driven by the launch of Mein Schiff 4 in June 2015 and continued improvement in performance by Hapag-Lloyd Cruises.

- In **Other Tourism**, underlying EBITA loss improved to €5m (Q3 2014/15: €13m loss), or €6m loss excluding the positive impact of foreign exchange translation, with an improved performance by Corsair and reduced Tourism overheads partly offset by Destination Services, which has been impacted by the lower volumes in Turkey and North Africa.

- **All other segments** underlying EBITA loss of €5m (Q3 2014/15: €13m loss), or €6m loss excluding the positive impact of foreign exchange translation, includes €5m further benefit from the delivery of further corporate streamlining synergies, bringing the total delivered to date to €25m.

SUMMER 2016 TRADING IN LINE WITH OUR EXPECTATIONS

- **Summer 2016 remains in line with our expectations:**
    - Source Market programme 87% sold to date, with revenue up 1%.
    - UK continues to deliver a strong performance, with revenue and bookings up 6%. There has been no apparent slowdown in bookings as a result of the EU referendum, demonstrating once again the resilience of demand for our unique and differentiated holidays, distributed directly to the customer.
    - Trading in some other source markets has been more significantly impacted by geopolitical events.
    - However, overall, we have continued to see a shift in demand to alternative profitable destinations, with Source Market bookings excluding Turkey up 8%, proving the sustained strength in underlying demand for package holidays and the flexibility of our model in terms of remixing capacity.

- Demand for our hotels outside Turkey continues to drive improvement in Hotels & Resorts occupancy and performance this Summer, including new openings in Dominican Republic, Sri Lanka and Greece.

- Continued growth in Cruise bookings for Summer 2016 driven by demand for Mein Schiff 5, which launched in July 2016, with good occupancy and rates across the fleet.

- Pleased with early trading for Winter 2016/17 and Summer 2017.

OUTLOOK - WELL POSITIONED TO DELIVER AT LEAST 10% GROWTH IN UNDERLYING EBITA IN 2015/16[1]

- Given the resilience of demand for our holidays, hotels and cruises, the flexibility inherent in our business model, our balanced portfolio of businesses and destinations, and the strength of our balance sheet, we are well positioned to deal with the changing geopolitical and macroeconomic environment.

- Therefore, based on current trading we remain confident of delivering underlying EBITA growth of at least 10% in 2015/16[1], and reiterate our previous guidance of at least 10% underlying EBITA CAGR over the three years to 2017/18[1].

CURRENT TRADING IN LINE WITH OUR EXPECTATIONS

Summer 2016

Overall, Summer 2016 trading remains in line with our expectations. 87% of the programme has been sold to date, which is broadly in line with prior year, with revenue up 1%. We have continued to see a shift in demand to alternative profitable destinations, with Source Market bookings excluding Turkey up 8%, proving the sustained strength in underlying demand for package holidays and the flexibility of our model in terms of remixing capacity.

Current Trading[1]		*Summer 2016*		
YoY variation%	**Total Revenue[2]**	**Total Customers[2]**	**Total ASP[2]**	**Programme sold (%)**
Northern Region	**+3**	**+3**	**+1**	**89**
UK	+6	+6	Flat	89
Nordics	-9	-12	+3	87
Central Region	**-2**	**-3**	**+1**	**86**
Germany	-3	-3	+1	86
Western Region	**Flat**	**+2**	**-2**	**86**
Benelux	-1	+2	-3	85
Total Source Markets	**+1**	**Flat**	**Flat**	**87**

[1] *These statistics are up to 31 July 2016 and are shown on a constant currency basis*
[2] *These statistics relate to all customers whether risk or non-risk*

In the UK, the programme is 89% sold, ahead of prior year. We are continuing to deliver a strong performance, with revenue and bookings up 6%. Short haul growth is driven by holidays to Spain, Greece, Cyprus and Portugal. Long haul bookings are up 16%, driven by growth to Mexico, Dominican Republic and Jamaica as well as new destinations such as Costa Rica. Our new cruise ship, TUI Discovery, was launched in June 2016 and is based in the Mediterranean this Summer. UK cruise sales continue to perform well. There has been no apparent slowdown in UK bookings as a result of the EU referendum, demonstrating once again the resilience of demand for our unique and differentiated holidays, distributed directly to the customer.

In Nordics, the programme is 87% sold. Revenues are down 9% with bookings down 12% and a 3% increase in average selling price. We have experienced significant pressure on trading as a result of the decrease in demand for Turkey, which accounted for over 20% of Nordics customers in Summer 2015. In addition, in the days immediately after the July 2016 attempted coup, Nordics foreign offices advised against all unnecessary travel to Turkey. Excluding Turkey, bookings are up 9%, with growth driven by the Balearics, Canaries and Greece. Although this year's programme has been remixed to alternative destinations, this has not fully mitigated the impact of Turkey, and we have experienced later booking patterns as a result, putting further pressure on lates trading. We therefore anticipate that this will have an adverse impact on Nordics' full year result.

In Germany, the programme is 86% sold. Revenues and bookings are down 3%. We are continuing to increase our market share, despite challenging conditions, however current trading is strongly influenced by the events in Turkey, which accounted for nearly 20% of German customers in Summer 2015 and has traditionally been over indexed towards families. Bookings to destinations outside Turkey are up 4%, with increased demand for destinations across Spain, Greece and Italy, as well as an increase in long haul package bookings, with Mexico, Dominican Republic and Cuba proving popular.

In Benelux, the programme is 85% sold. Revenues are down slightly against 2% growth in bookings, with a positive performance by Netherlands offset by a general slow down in demand in Belgium following the attack on Brussels Airport and as a result of subdued demand for Turkey. This has been particularly evident for package holidays, with a better performance for seat only. Bookings to destinations outside Turkey are up 7%, with increased demand for destinations across Spain and growth in long haul. We expect the lower demand as a result of the Brussels attack and events in Turkey to have an adverse impact on Belgium's full year result.

Trading in Hotels & Resorts largely reflects bookings made through our Source Markets. The popularity of our hotels outside Turkey and North Africa continues to drive improvement in Hotels & Resorts performance this Summer, and we are well placed to benefit from the increase in demand for the Western Mediterranean and long haul destinations. In Summer 2016 we have opened five additional hotels in our core brands and repositioned two more.

TUI Cruises launched Mein Schiff 5 in July 2016, with good advance bookings and yields. Booked load factor across the TUI Cruises fleet is now 95% for calendar 2016. We have also seen a continued improvement in yield for Hapag-Lloyd Cruises.

Winter 2016/17 and Summer 2017

We are continuing to shape our programme for Winter 2016/17 and Summer 2017, and are pleased with early trading. Winter 2016/17 is less than 25% booked, with bookings up 8% and average selling prices up 5%. UK bookings are currently up over 20%, with growth driven by increased long haul capacity, including the Caribbean, Mexico, Thailand and Mauritius. Medium haul volumes to Canaries and Cape Verde are also doing well, and the launch of TUI Discovery in June 2016 is driving a good performance by cruise. The UK has also seen a good start to Summer 2017 and we are also pleased with the progress in trading for TUI Cruises' sixth ship, Mein Schiff 6, which launches next year.

DELIVERING AGAINST OUR GROWTH LEVERS

1. DELIVER TOURISM GROWTH

Our growth strategy is clear:

- In becoming a **content centric, vertically integrated tourism group**, we operate in all stages of the value chain, from marketing and sales, to flight, accommodation (hotels and cruise) and destination services.
- The core of our offering will be **differentiated product, based on exclusive content**.
- We have a **resilient model**, prepared for current and future changes.
- The strength of our vertically integrated model is the **monitoring and selective control of all stages in the value chain**. This allows us to mitigate capacity risks, respond quickly and flexibly to market changes and actively shape overall situations and markets.
- We take advantage of **global economies of scale** resulting from our size and international scope to deliver competitive advantages and have defined six scaling platforms as a framework: TUI Brand, Aviation, Hotel Investment/Hotel Purchasing, Cruises, Destination Services, Integrated IT and Management Platforms.
- We use our **local strength** at crucial points in the competitive arena, to be close to customers and their individual needs.

1.1 Marketing & Sales

We aim to achieve profitable top-line growth ahead of the market. In the nine month period, turnover was broadly flat at constant currency rates and brand turnover (which includes turnover from our strategic ventures in Canada and TUI Cruises) grew by 1.3%. Source Market customer volumes for the year to date were down slightly year-on-year. Although UK volumes increased by 4%, this was offset by lower volumes in the other Source Markets, driven by lower demand for Turkey and North Africa and in the wake of the Brussels Airport attack. However, based on current trading, we expect some modest growth in customer volumes in the final quarter of the financial year, in spite of the geopolitical backdrop.

We are capitalising on the strength of the TUI brand on a global scale. Having launched our brand migration successfully in the Netherlands in October 2015, rebranding in Belgium and Nordics will follow in Autumn 2016, with the UK to take place the following year.

Control over distribution remains central to our marketing and sales strategy, and all Source Markets are focussed on delivering more direct, more online sales. In the nine month period controlled distribution grew by two percentage points to 72%. Online distribution grew by three percentage points to 44%. Continued progress was made across the Source Markets.

In order to grow ahead of the market, we are also broadening our offering. This includes long haul expansion, a modernised cruise offering in the UK and more choice of flight times and durations for our unique holidays. Our long haul bookings grew by 9% in Winter 2015/16 and Summer 2016 long haul bookings are up 8%, with destinations in the Caribbean and Asia proving to be particularly popular.

We will also continue to focus on improving earnings in underperforming Source Markets and driving improvements in operational efficiency. In France, we have continued to significantly reduce operating losses, and to enhance the turnaround plans for this Source Market, we announced in May the acquisition of Transat's French tour operating business, with completion anticipated by end of October 2016.

1.2 Flight

We have over 140 aircraft operated by five airlines in our Source Markets, flying around 13 million customers per annum and serving over 180 destinations. We are delivering operational efficiencies through our One Aviation programme, which focusses on aligning engineering and maintenance, customer (ground) operations and supplier management and procurement across our airlines. We expect to realise €50m savings in relation to this by 2018/19.

As previously announced, we are in the process of modernising our short haul fleet, with firm orders for 70 737 MAX aircraft and options for up to 50 more. These are expected to be delivered from 2018 onwards. In addition, we have taken delivery of our first 787-9 this quarter, bringing the total 787 fleet to 14, with a further three to come in the next two years. This facilitates our long haul expansion as the only leisure airline with the 787.

1.3 Accommodation

As a content centric business, accommodation is the key differentiator in the customer holiday experience and the key driver of satisfaction and retention rates, therefore growth in accommodation will be central in driving profitable top-line growth.

<u>Hotels</u>

Our strategic focus within Hotels & Resorts is to achieve further differentiation and optimisation of our own hotel portfolio and a more focussed and defined brand profile. The core brands will be Riu, Robinson, Magic Life and the new hotel brand TUI Blue, rounded off by three hotel concepts Sensatori, Sensimar and Family Life. We are targeting around 60 new hotels over the five year period from 2014/15 to 2018/19 with a ROIC of at least 15%. In 2014/15 we opened seven new resorts in our core hotel and club brands, as well as four new concept resorts in Group hotels. For Summer 2016 we have five additions to our core brands.

Riu is the Group's largest hotel brand in terms of volume and earnings, delivering 20% ROIC in 2014/15 (excluding TUI goodwill), and will be key in delivering profitable growth. We opened four new resorts in 2014/15, with two further openings in Summer 2016 in the Dominican Republic and Sri Lanka. Expansion to new destinations will be an important growth lever, particularly year round destinations such as the Caribbean, Asia and Cape Verde.

TUI Blue is our new hotel brand focusing on differentiation and quality. As a distinctive customer proposition, it offers a premium all-inclusive concept. In addition to new hotels, the brand will include the repositioning of some existing underperforming hotel brands to deliver turnaround. This has commenced in Summer 2016 with two resorts in Turkey repositioned into the TUI Blue brand, with future repositioning of hotels planned for Germany, Austria, Tenerife and Italy.

Robinson and Magic Life will be the core focus for our growth in clubs. Robinson will focus on increased Source Market distribution, increased direct distribution globally and international expansion. We opened one new club in 2014/15 and opened two more in Greece and Turkey in Summer 2016. Magic Life is already strongly integrated with the Source Markets, leading to a significant increase in occupancy over the past few years. For future growth, Magic Life will benefit from a further internationalisation of the concept through the Source Markets and increased distribution globally. We launched two new Magic Life clubs in 2014/15 and will continue to grow the brand in future years.

Furthermore, we will grow our powerful and exclusive hotel concepts through internationalisation. Sensatori, Sensimar and Family Life are our outstanding international hotel concept brands designed for specific customer segments. With around 100 hotels captured under these brands, there is a strong base which differentiates our local market offering. The internationalisation of the existing Sensatori and Sensimar brands and introduction of Family Life has been launched for Summer 2016. In 2014/2015 we launched two new Sensatoris and two new Sensimars which are operated by Group hotels, and have opened a further Sensatori in the Dominican Republic in Summer 2016.

<u>Cruises</u>

With our three cruise brands and growth plans, we will become a leading cruise operator in Europe. We make joint decisions within our Tourism business in terms of cruise fleet planning.

TUI Cruises currently operates five ships in the high growth, underpenetrated premium German market. Mein Schiff 5 was launched in July 2016. We have a strong competitive advantage, having secured additional capacity, with three further ships ordered and one being delivered in each of the coming three years.

In the UK, Thomson Cruises operates a five ship fleet, which we intend to fully modernise in the next few years, starting with the launch of TUI Discovery (formerly Splendour of the Seas) in June 2016 and the addition of TUI Discovery 2 (formerly Legend of the Seas) in Summer 2017. It is also intended that, with the delivery of Mein Schiff 7 and Mein Schiff 8 to TUI Cruises, Mein Schiff 1 and Mein Schiff 2 will be moved to Thomson Cruises to replace two older ships, leaving TUI Cruises with a six ship fleet.

With Hapag-Lloyd Cruises, we continue to focus on luxury and expedition cruises. The successful repositioning of the brand has been completed and the turnaround was delivered last year.

1.4 Destination Services

Our unique destination service brings the TUI brand alive, operating in more than 100 destinations with over 6,500 employees with access to around 11 million customers, managing airport transfers, excursions and resort services. The carve out of Destination Services from Hotelbeds Group to Tourism is now complete, delivering enhanced operational efficiency. €5m of synergies relating to the carve out were delivered in the year to date and a further €15m will be delivered by the end of financial year 2016/17.

1.5 Integrated Platforms, Integrated Management

We take advantage of global economies of scale resulting from our size and international scope to deliver competitive advantages. We therefore act as one in six areas:

- **One shared global brand**
- **Aviation** - central control of configuration, purchasing, finance, maintenance, ground handling
- **Hotel investments/hotel purchasing** - international marketing of our core brands (Riu, Robinson, Magic Life, TUI Blue) and our hotel concepts (Sensimar, Sensatori, Family Life)
- **Cruises** - joint decisions about investment in new vessels and marketing of our core brands (TUI Cruises, Hapag-Lloyd Cruises, Thomson Cruises)
- **Destination Services** - shared international team to serve our guests in destinations
- **IT** - customer platform, customer relationship management (CRM), customer app and yield management

2. MAXIMISE GROWTH AND VALUE OF OTHER BUSINESSES

In May 2015, we set out our strategy to maximise the growth and value of our other businesses – Hotelbeds Group, Specialist Group and our shareholding in Hapag-Lloyd AG which is held for sale – with a view to delivering superior returns for our shareholders. We have made significant progress in achieving our objectives, with the disposal of Hotelbeds Group for €1.2 billion (subject to customary closing conditions and regulations) due to complete by the end of September 2016 and the marketing of Travelopia expected to commence Autumn 2016. Our 12.3% shareholding in Hapag-Lloyd AG, which will be diluted to 8.9% following the merger of Hapag-Lloyd AG and United Arab Shipping Company, is accounted for as an available for sale financial asset, with a viable route to exit following the IPO at the end of 2015.

3. DELIVER MERGER SYNERGIES

Following the merger of TUI AG with TUI Travel PLC, corporate streamlining is expected to deliver cost savings of €50m per annum by the end of 2016/17, mainly from the consolidation of overlapping functions. We delivered €10m of savings in 2014/15 and have delivered a further €15m in the year to date, bringing the total to date to €25m. Estimated one-off integration costs of €35m are expected in order to achieve these savings, €31m of which were incurred in 2014/15 and a further €4m in the year to date.

Our unified ownership structure enables a more efficient tax grouping and use of carried forward tax losses. As a consequence, the Group's underlying effective tax rate has reduced to 25% and is expected to remain at this level following the disposal of Hotelbeds.

We are also delivering further synergies due to joint management of occupancy by Source Markets and group hotels. Occupancy is expected to improve by 5% points by 2016/17 as a result of integration compared with the year prior to the merger (2012/13). In 2014/15, we delivered approximately €10m underlying EBITA benefit as a result of occupancy improvement. A further €4m has been delivered in Q3 2015/16.

Additional savings of at least €20m per annum are expected from the integration of Destination Services into the Tourism businesses. The separation of legal entities and IT functions from Hotelbeds is now complete, with €5m of synergies delivered so far this year.

4. BALANCE SHEET STRENGTH, FLEXIBILITY AND STRONG CASH FLOW GENERATION

We are focussed on improving free cash flow and therefore delivering superior returns on investment for shareholders. Our growth strategy reflects this goal, with the aim of creating a strong, flexible balance sheet which supports our long-term growth plans.

We are committed to improving our credit metrics following the delivery of merger synergies and the execution of our growth roadmap. Our focus on rating will allow us to obtain optimal financing conditions, and progress has already been made in this area, with Moody's announcing an upgrade in TUI Group's corporate family rating from Ba3 to Ba2 on 26 April 2016. We have set financial targets for 2015/16 based on a leverage ratio of 3.5 to 2.75 times, and an interest coverage ratio of 4.5 to 5.5 times interest. We intend to adjust these target corridors further in subsequent financial years to support our goal of improving our credit rating.

With the increase in our operating profitability, the clearly noticeable decline in interest payments due to the reduction in Group debt over the past 18 months, and the more efficient tax grouping, we are committed to a progressive dividend policy. Dividends are expected to grow in line with the growth in underlying EBITA at constant currency, with an additional 10% on the base dividend in respect of 2015/16 as outlined at the time of the merger.

RESTATEMENT OF RESULTS

We have revised our segmental reporting for the current and prior year. The most significant restatement relates to Hotelbeds Group. The Destination Services result has been carved out from Hotelbeds Group and is now reported within Other Tourism and, following the carve out, the Hotelbeds Group result has been reclassified to discontinued operations. In addition, the Crystal Ski and Thomson Lakes & Mountains result has been reclassified from Specialist Group to Northern Region, in preparation for the disposal of Travelopia. Also, costs relating to IT services have been reclassified from All Other Segments to Other Tourism, as they relate to the Tourism businesses. Minor reclassifications have also been made from Western and Central Region to All Other Segments.

ADJUSTMENTS

Adjustments of €82m were incurred during the nine month period ended 30 June 2016. The following table provides a breakdown of these items, which have been restated to treat Hotelbeds Group as discontinued operations.

Nine month period ended 30 June in €m	**2016**	**2015**
Restructuring expense	-8	-42
Losses/gains on disposals	-2	1
Other one-off items	-27	-56
Purchase price allocation (PPA)	-45	-46
Total Adjustments	**-82**	**-143**

The total charge of €82m for the nine month period ended 30 June 2016 includes €8m merger related costs, €4m in respect of corporate streamlining and €4m for the integration of Destination Services into Tourism.

NET INTEREST EXPENSE

Net interest expense (including expense from the measurement of interest hedges) for the nine month period improved by €26m to €115m net expense (9M 2014/15: net expense €141m), driven mainly by lower interest on convertible bonds which have since matured and redeemed.

INCOME TAXES

The tax income posted for the nine month period is partly attributable to the seasonality of the tourism business. Income tax credit for the nine month period decreased to €63m (9M 2014/15: credit €232m). The prior year included €117m credit in respect of the post-merger reorganisation of the German tax group. In addition, the current year includes a provision of €37m, reflecting the risk associated with a recent German trade tax ruling.

NET DEBT

The net debt position (cash and cash equivalents less capital market financing, loans, overdrafts and finance leases) at 30 June 2016 was €459m, or €286m including €173m net cash within Hotelbeds Group (30 June 2015: net debt €307m including Hotelbeds Group).

The net debt position at 30 June 2016 of €459m consisted of €1,663m of cash and cash equivalents (€193m of which was subject to disposal restrictions), €284m of current liabilities and €1,838m of non-current liabilities.

FUEL/FOREIGN EXCHANGE

Our strategy of hedging the majority of our jet fuel and currency requirements for future seasons, as detailed below, remains unchanged. This gives us certainty of costs when planning capacity and pricing. The following table shows the percentage of our forecast requirement that is currently hedged for Euros, US Dollars and jet fuel for our former TUI Travel businesses, which account for over 90% of our Group currency and fuel exposure.

	Summer 2016	**Winter 2016/17**	**Summer 2017**
Euro	95%	81%	50%
US Dollars	95%	84%	59%
Jet Fuel	95%	91%	77%
As at 5 August 2016			

We do not hedge the impact of foreign exchange translation of results in non-Euro currencies. Based on exchange rates at current levels we anticipate an adverse impact of approximately €100m from foreign exchange translation on the full year underlying EBITA result, primarily due to the translation of peak season profits from Sterling denominated operations.

OUTLOOK

We have delivered a good Q3 result, driven by the strength of our vertically integrated model and the delivery of our growth plans and merger synergies. Summer 2016 trading remains in line with our expectations, with sustained strong demand for holidays in the Western Mediterranean, long haul destinations and cruise, and we are also encouraged by the positive start to trading for Winter 2016/17 and Summer 2017. Given the resilience of demand for our holidays, hotels and cruises, the flexibility inherent in our business model, our balanced portfolio of businesses and destinations, and the strength of our balance sheet, we are well positioned to deal with the changing geopolitical and macroeconomic environment. We therefore remain confident of delivering at least 10% growth in underlying EBITA in 2015/16[1], and reiterate our previous guidance of at least 10% underlying EBITA CAGR over the three years to 2017/18[1].

INVESTOR AND ANALYST BRIEFING AND WEBCAST

A conference call and audio webcast for investors and analysts will take place today at 9:00am BST / 10:00am CEST.

The dial-in arrangements for the call are as follows:

For Germany: +49 302 3253 1411
For UK: +44 1635 598060
For France: +33 1 72 25 30 98
For US: +1 862 701 3057

A presentation and the quarterly report to accompany the conference call will be made available shortly after 6:00am BST / 7:00am CEST on our corporate website. Details of the webcast can be found at the same link: http://www.tuigroup.com/en-en/investors.

Pre-Close Trading Update

TUI Group will issue a pre-close trading update on Wednesday 28 September 2016.

Annual Report 2015/16

TUI Group will issue its Annual Report for the full-year 2015/16 on Thursday 8 December 2016.

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