H1 2019

TUI Group – financial highlights

€ million	Q2 2019	Q2 2018 adjusted	Var. %	H1 2019	H1 2018 adjusted	Var. %	Var. % at constant currency
Turnover	**3,101.4**	**3,145.2**	**–1.4**	**6,676.4**	**6,565.9**	**+1.7**	**+1.7**
Underlying EBITA[1]							
Hotels & Resorts	66.7	80.4	–17.0	135.4	172.3	–21.4	–28.0
Cruises	59.4	56.0	+6.1	106.4	93.7	+13.6	+13.4
Destination Experiences	–5.6	–9.9	+43.4	–10.4	–13.3	+21.8	+22.6
Holiday Experiences	120.5	126.5	–4.7	231.4	252.7	–8.4	–12.9
Northern Region	–130.8	–88.3	–48.1	–205.1	–125.7	–63.2	–62.5
Central Region	–90.7	–89.9	–0.9	–127.8	–144.7	+11.7	+11.7
Western Region	–97.3	–56.5	–72.2	–163.9	–105.1	–55.9	–55.9
Markets & Airlines	–318.8	–234.7	–35.8	–496.8	–375.5	–32.3	–32.1
All other segments	–18.7	–24.8	+24.6	–35.2	–46.9	+24.9	+20.0
TUI Group	**–217.0**	**–133.0**	**–63.2**	**–300.6**	**–169.7**	**–77.1**	**–84.7**
EBITA[2]	**–240.1**	**–146.5**	**–63.9**	**–345.9**	**–203.4**	**–70.1**	
Underlying EBITDA[3]	**–104.3**	**–32.1**	**–224.9**	**–77.5**	**25.4**	**n. a.**	
EBITDA[3]	**–118.7**	**–39.5**	**–200.5**	**–106.7**	**4.1**	**n. a.**	
EBITDAR[4]	**48.1**	**120.5**	**–60.1**	**237.7**	**334.9**	**–29.0**	
Net loss for the period	–175.1	–142.3	–23.0	–287.2	–210.6	–36.4	
Earnings per share €	–0.34	–0.29	–17.2	–0.58	–0.48	–20.8	
Net capex and investments	356.7	66.5	+436.4	651.5	207.3	+214.3	
Equity ratio (31 March)[5] %				21.2	20.1	+1.1	
Net debt position (31 March)				–1,964.1	–576.0	–241.0	
Employees (31 March)				60,135	55,773	+7.8	

Differences may occur due to rounding.
This Half Year Financial Report of the TUI Group was prepared for the reporting period H1 2019 from 1 October 2018 to 31 March 2019.
The TUI Group applied IFRS 15 and IFRS 9 retrospectively from 1 October 2018. In contrast to IFRS 15, IFRS 9 was introduced without restating the previous year's figures.
In Q1 2019, the Italian tour operators were transferred from All other segments to the Central Region. In addition, the Crystal Ski companies, which provide services in the destinations, were reclassified from Northern Region to Destination Experiences. Prior-year figures were adjusted accordingly.

1 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. Please also refer to page 15 for further details.
2 EBITA comprises earnings before interest, income taxes and goodwill impairment. EBITA includes amortisation of other intangible assets. EBITA does not include measurement effects from interest hedges.
3 EBITDA is defined as earnings before interest, income taxes, goodwill impairment and amortisation and write-ups of other intangible assets, depreciation and write-ups of property, plant and equipment, investments and current assets. The amounts of amortisation and depreciation represent the net balance including write-backs. Underlying EBITDA 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.
4 For the reconciliation from EBITDA to the indicator EBITDAR, long-term leasing and rental expenses are eliminated.
5 Equity divided by balance sheet total in %, variance is given in percentage points.

INTERIM MANAGEMENT REPORT

H1 Summary

The increase in the H1 seasonal underlying EBITA loss to € 301 m (H1 2018: € 170 m loss) reflects the ongoing weak demand environment in Markets & Airlines. Holiday Experiences continues to perform well (reflecting the non-repeat of prior year disposal gains in Riu), benefitting from the integrated model and our investments in differentiated content.

H1 results at a glance

€ million	H1
Underlying EBITA H1 FY18 (originally reported)	**–159**
IFRS 15 impact	–11
Underlying EBITA H1 FY18 (adjusted)	**–170**
Holiday Experiences	+5
Markets & Airlines	–142
All other segments	+10
Special items	
Prior year: Riu gains on disposal (Hotels & Resorts)	–38
Prior year: Niki bankruptcy impact (Central Region)	+20
Q1 FY19: Northern Region hedging gain	+29
Q2 FY19: 737 MAX grounding	–5
Q2 FY19: Easter timing	–22
Underlying EBITA H1 FY19 at constant currency	**–313**
Foreign exchange translation	+12
Underlying EBITA H1 FY19	**–301**

For further detailed commentary, please see Segmental Performance (pages 7 to 11).

As expected, the decline in Markets & Airlines' H1 result reflects the knock-on impact of the summer 2018 heatwave, overcapacities in Spain arising from the shift in demand to Eastern Mediterranean, continued Brexit uncertainty, as well as particularly strong comparatives for Nordics in H1 last year. In addition, the result includes the initial impact from the 737 MAX grounding, which commenced in mid-March, and the later timing of Easter this year.

Our strong market positions in Markets & Airlines are an important factor in the success of our integrated model, with a strong customer base and leading market shares. This is what helps to drive the high return on our investments in Holiday Experiences. We remain focussed on delivering the benefits of efficiency and digitalisation across the Group.

In Holiday Experiences, our Hotels & Resorts (reflecting the non-repeat of prior year disposal gains in Riu), Cruises and Destination Experiences segments continue to perform well. This is due to the investment we have made in recent years to expand our differentiated content, and thanks to our integrated model, which drives occupancies, rate and yields in our hotels and cruise ships.

Hotels & Resorts delivered a resilient performance in H1. The result reflects the non-repeat of prior year disposal gains, as well as the continued shift of demand from Spain to Turkey. As Turkey is primarily a Summer destination, and given that we have additional lease commitments in H1 2019 in order to secure additional capacity in that destination, the benefit to the Turkish hotels' result will be H2 weighted. Cruises continues to deliver a strong performance, taking into account additional dry dock and launch costs in H1.

Net debt as at 31 March 2019 was € 1,964 m (H1 2018: € 576 m). As expected, net debt is returning to the normal seasonal pattern, as we complete reinvestment of disposal proceeds received in recent years. It also reflects the planned ongoing financing of our aircraft order book, with more aircraft being brought into ownership and under finance leases.

Based on our building blocks for H2 growth, we therefore reiterate our updated FY19 underlying EBITA guidance as per our ad hoc announcement of 29 March 2019 of approximately –17 % (assuming 737 MAX flight resumption mid-July) up to approximately – 26 % (assuming measures taken in relation to the grounding are extended to end of Summer 2019), compared with underlying EBITA rebased in FY18 of € 1,177 m[1]. Please refer to page 5 for further detail on the 737 MAX grounding. We believe that TUI's unique integrated model delivers high returns, and our strategic initiatives provide strong strategic positioning for future growth.

[1] Based on constant currency: FY19 comparative rebased in December 2018 to € 1,187 m to take into account € 40 m impact for revaluation of Euro loan balance within Turkish Lira entities in FY18, and adjusted further to € 1,177 m for retrospective application of IFRS 15

Outlook and expected development

HOLIDAY EXPERIENCES

Despite the pressures faced by Markets & Airlines, Holiday Experiences continues to perform well taking into account the Riu gains on disposals in Hotels & Resorts in the previous year. This is due to the investment we have made in recent years to expand our differentiated content and our integrated model (in order to drive occupancies, rates and yields in our hotels and cruise ships).

We have opened 58 own hotels since the merger, with a pipeline of further openings to come. In terms of destinations, we have seen demand continue to shift from Western Mediterranean back to the Eastern Mediterranean and North Africa. In addition, demand for Mexico from US customers has softened, as a result of border tensions and safety concerns. Our portfolio of destinations, unique brands and strong distribution capability leave us well positioned to continue to deliver sector-leading returns in Hotels & Resorts.

In Cruises, we have launched three ships this year (new Mein Schiff 2, Marella Explorer 2, and in May Hanseatic nature) and continue to see good demand for these and the rest of our fleet. Load factor and yield performance remain in line with our expectations. In Destination Experiences, we are on track to deliver the integration of our prior year acquisitions, with continued growth in sales of excursions and activities.

MARKETS & AIRLINES

In Markets & Airlines, the weak demand environment persists as outlined in our Quarterly Statement Q1 2019, resulting in significant yield and margin pressure. This is driven by a number of factors – reduced demand due to last year's extraordinary hot summer, slowdown of consumer confidence, Brexit uncertainty, shift in demand to the Eastern Mediterranean coupled with overcapacity of flights to Spain, as well as the 737 MAX grounding.

For Summer 2019, 59 % of the total programme has been sold compared with 62 % at this time last year. Bookings are down 3 %, with average selling price up 1 % against strong comparatives[1]. The competitive pricing environment means that this average selling price increase is not at a sufficient level to cover cost inflation. All markets are trading on lower margins then prior year, given the weaker demand environment and oversupply to some destinations such as Spain. We have taken a disciplined approach to capacity, which is flat compared with prior year, at the same time enabling us to protect our strong market leading positions.

[1] These statistics are up to 5 May 2019, shown on a constant currency basis, and relate to all customers whether risk or non-risk

FOUR STRATEGIC INITIATIVES

We believe that TUI's unique integrated model delivers superior returns, and our strategic initiatives provide strong strategic positioning for future growth.

- Grow Hotel & Cruise business with vertical integration to drive premium returns;
- Protect and where possible extend strong positions in Markets & Airlines through revenue and cost base initiatives. These are focussed on digitalisation, mass-individualisation and upselling; airline efficiency; procurement; increased mobile distribution; and efficiency and standardisation of processes.
- Add scale for own holiday experiences and expand into new markets, with our new GDN-OTA (Global Distribution Network-Online Travel Agent) platform; and
- Add scale in destination experience markets with our new tours and activities platform.

EXPECTED DEVELOPMENT

We have clear building blocks to deliver growth in H2. In Holiday Experiences we will deliver growth from our investments in hotels, cruises and destination experiences, with the annualisation of investment benefits from last year, plus new hotel openings and ship launches this year. In addition, we expect further recovery in demand for Turkey and North Africa, and the timing benefit of the later Easter. As previously flagged, these benefits will be offset by the one-off costs relating to the 737 MAX grounding, of around € 200 m (assuming grounding until mid-July) up to around € 300 m (assuming grounding until end of Summer). Please refer to page 5 for further detail on the 737 MAX grounding.

TUI has strong strategic positioning for future growth, underpinned by our unique integrated model and strategic initiatives. The lifting of the 737 MAX grounding and a cyclical recovery in Markets & Airlines, would support growth beyond FY19, which will be further enhanced by revenue opportunities and cost base improvements. Additional growth will be delivered by growth investments in hotels and cruise ships, based on normalised run-rate net capex and investments (estimated to be around 3.5 % of turnover) and ring-fenced investments by joint ventures, as well as our scalable GDN-OTA and destination experiences platforms.

Report on changes in expected development

On 29 March 2019, we informed the markets via an ad hoc announcement that, following the grounding of the 737 MAX aircraft, TUI has made arrangements in order to guarantee customers' holidays. The Group is utilising spare aircraft of its fleet, extending expiring leases for aircraft that were supposed to be replaced by 737 MAX aircraft, as well as leasing in additional aircraft. TUI's fleet, which comprises around 150 aircraft, currently includes 15 grounded 737 MAX for the UK, Belgium, the Netherlands and Sweden. A further eight 737 MAX are scheduled for delivery after the lifting of the grounding.

Assuming 737 MAX flight resumption latest by mid-July, the Group currently expects to see a one-off impact on underlying EBITA of approximately € 200 m in connection with the 737 MAX grounding. This impact is especially attributable to costs related to the replacement of aircraft, higher fuel costs, other disruption costs, and the anticipated impact on trading. As a result of this one-off impact, the Executive Board of TUI AG has updated the guidance and now expects an underlying EBITA for FY19 of approximately minus 17 % compared with FY18 of € 1,177 m rebased[1].

As stated in the ad hoc announcement of 29 March 2019, the Executive Board of TUI AG expects a further negative one-off effect if it does not become sufficiently certain in the course of May that flying the 737 MAX will resume by mid-July. TUI will then need to fully extend the measures until the end of the summer season. TUI confirms the expectation disclosed in the ad hoc notification of 29 March 2019 for this additional one-of impact until 30 September 2019 of up to € 100 m. For this scenario, the Executive Board of TUI AG had also updated the guidance on underlying EBITA for FY19 to up to minus 26 % compared with FY18 of € 1,177 m rebased[1].

Due to the application of IFRS 15, turnover for FY18 has been adjusted to € 18.5 bn. Our guidance of around 3 % turnover growth in FY19[2] remains unchanged.

[1] Based on constant currency: FY19 comparative rebased in December 2018 to € 1,187 m to take into account € 40 m impact for revaluation of Euro loan balance within Turkish Lira entities in FY18, and adjusted further to € 1,177 m for retrospective application of IFRS 15

[2] Based on constant currency: Based on constant currency; prior year comparatives presented in accordance with IFRS 15

Structure and strategy of TUI Group

Reporting structure

The present Half Year Financial Report 2019 is essentially based on TUI Group's reporting structure set out in the Annual Report for 2018.

See Annual Report 2018 from page 32

In Q1 2019, the Italian tour operators were transferred from All other segments to the Central Region. In addition, the Crystal Ski companies, which provide services in the destinations, were reclassified from Northern Region to Destination Experiences. Prior-year figures were adjusted accordingly.

Group targets and strategy

TUI Group's strategy set out in the Annual Report 2018 remains unchanged.

Details see Annual Report 2018 from page 28