TUI - Implementation of IFRS 16

Conference Call, 12th December 2019

FORWARD-LOOKING STATEMENTS

This presentation contains a number of statements related to the future development of TUI. These statements are based both on assumptions and estimates. Although we are convinced that these future-related statements are realistic, we cannot guarantee them, for our assumptions involve risks and uncertainties which may give rise to situations in which the actual results differ substantially from the expected ones. The potential reasons for such differences include market fluctuations, the development of world market fluctuations, the development of world market commodity prices, the development of exchange rates or fundamental changes in the economic environment. TUI does not intend or assume any obligation to update any forward-looking statement to reflect events or circumstances after the date of these materials.

Application of IFRS 16

OVERVIEW & ACCOUNTING CHOICES

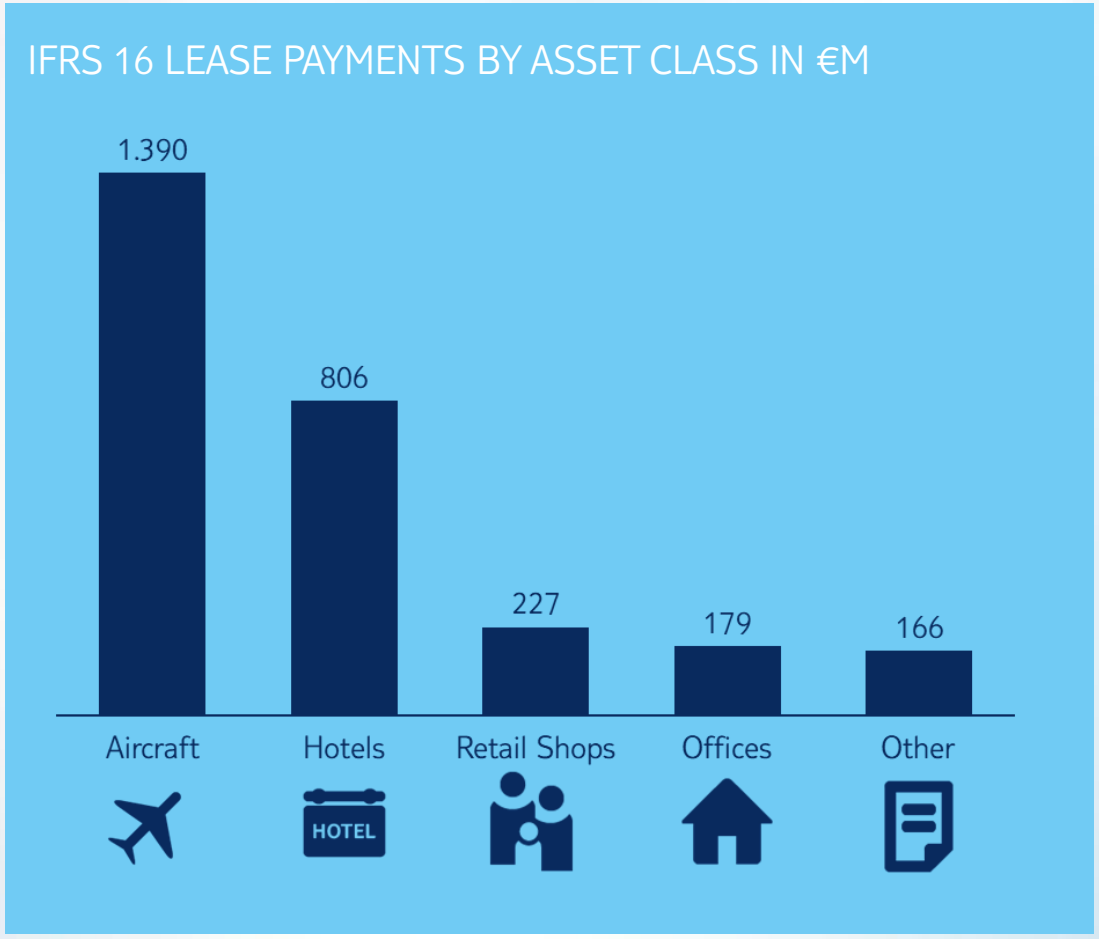
OVERVIEW

- IFRS 16 replaces the current lease accounting guidance
- Introduction of the 'right of use' approach
  - Lessees recognise an asset for the right to use the leased asset and a liability for the obligation to make future payments
  - Off-balance leases will be recognised on balance sheet
- TUI adopts IFRS 16 effective 1 October 2019
  - Election of the 'modified retrospective' approach
  - No restatement for FY19 or earlier periods
  - FY20 quarterly reporting will include a comparison of key financial data based on pre and post IFRS 16 adoption (first update at Q1 FY20)

ACCOUNTING CHOICES

- No application of IFRS 16 to leases of intangible assets
- Recognition & measurement exceptions for short-term leases (incl. leases expiring before 1 Oct 2020) and small-ticket leases
- Split-up of mixed contracts (except for IT, cars or hotel capacity)
- No application of IFRS 16 to intercompany leases
- Initial amount of right of use assets broadly equal to the lease liability

IFRS 16 (Operating) Lease Portfolio[1]



LEASE POPULATION IN SCOPE OF IFRS 16

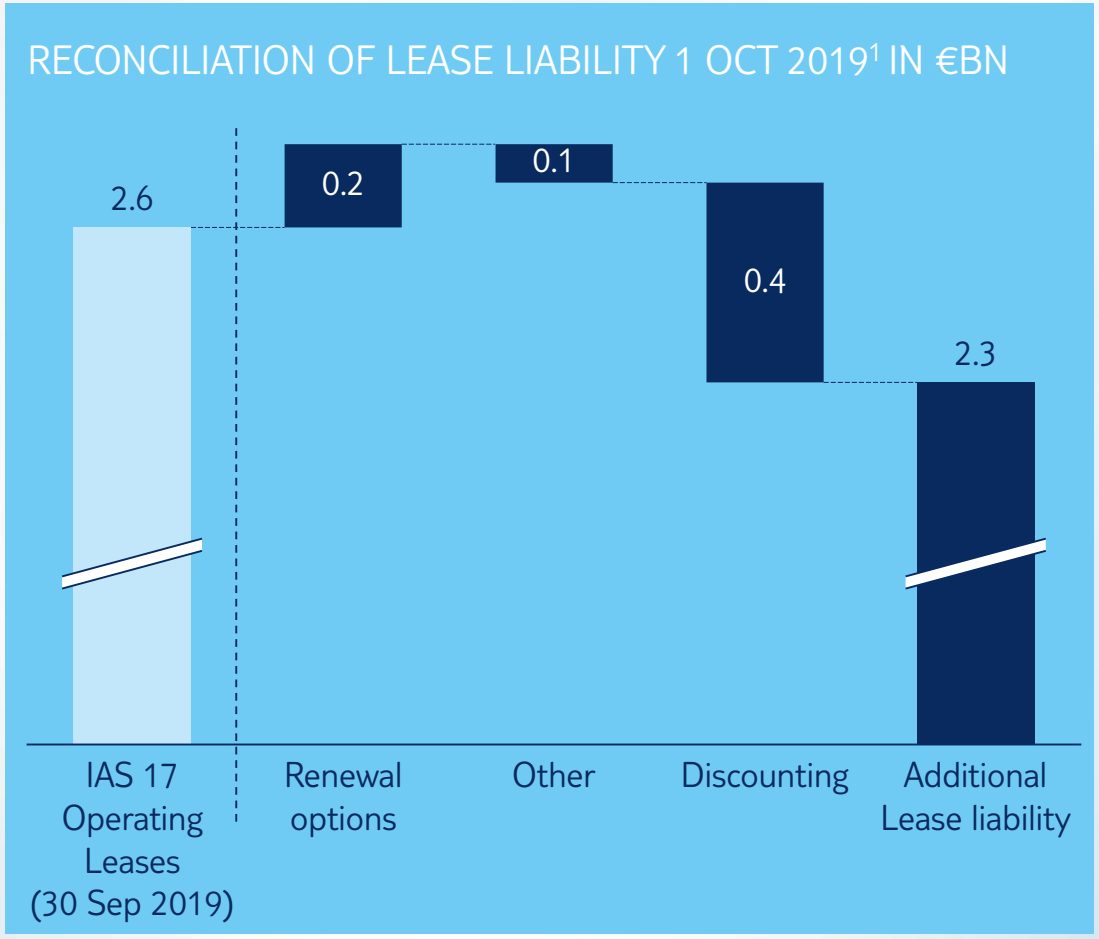
- Analysis of > 4,000 leases and more than 20,000 accommodation contracts during a 2 year lease data collation phase.

- Lease population under IFRS 16 broadly in line with IAS 17 lease population.[2]
  - Mature lease portfolio (average remaining lease term of approx. 3.7 years)
  - Committed future lease payments of approx. €2.8bn, thereof approx. €0.5bn in non-functional currencies (exposures mainly TRY/EUR, GBP/EUR)

- Weighted average incremental borrowing rate as at 1 Oct 2019 roughly 5%

1 Unaudited, this ignores pre-transition finance leases (IAS 17) | 2 Differences mainly in accommodation contracts & aircraft restoration

Impact on financial statements as at 1 Oct 2019[1]



BALANCE SHEET

- For previous IAS 17 Operating leases TUI recognises the following balance sheet items on transition date 1st Oct 2019[1]
  - Additional rights of use assets approx. €2.4bn ; and
  - Additional lease liabilities of approx. €2.3bn[2]
- Difference between additional lease assets and liabilities mostly due to adjustment for transition prepayments
- Significant increase in net debt as IAS 17 Operating leases now recognised on balance sheet
- Recognition of approx. €48m finance lease receivables due to reclassification of subleases as at 1 Oct 2019
- No material impact on equity

1 Unaudited. Impact in addition to existing finance leased assets (€1.3bn) and finance lease liabilities (€1.5bn). | 2 Thereof in non-functional currencies approx €0.4bn

Estimated impact of IFRS 16 on FY20 financials[1] (1/2)

I/S *in €m*		FY19A
Revenue / Other op. income	-10	*18,928*
Direct costs	+120	*17,257*
Indirect costs (lease exp.)	+560	*793*
Depreciation	-595	*-466*
Underlying EBIT	**+75**	***893***
Adjustments (SDI's & PPA)	-5	*-125*
Interest charges	-95	*-77*
Reported EBT	**-25**	***691***

I/S – KPIs *in €m*		FY19A
Underlying EBITDAR	**+110**	***2,071***
Indirect costs (lease exp.)	-560	*712[4]*
Underlying EBITDA	**+670**	***1,359***
Depreciation	+595	*466*
Underlying EBIT	**+75**	***893***

- Revenue decrease mainly due to external aircraft sublease. Under IFRS 16 recognition of interest income instead of rent revenues in profit or loss.
- Shift from direct accommodation costs[2] and lease expenses to depreciation and interest charges will lead to an increase in underlying EBIT
- Frontloaded expense (i.e. depreciation and interest charges) will reduce FY20 profit before tax[3]

- Increase in underlying EBITDAR expected due to classification of accommodation costs as lease under IFRS 16 (i.e. new IFRS 16 definition of a lease)
- Increase in underlying EBITDA due to higher underlying EBIT and depreciation on right-of-use assets

1 The actual FY20 impact will depend on the timing and extent of future transactions as well as future market conditions; thus the actual FY20 impact may deviate ~+/-5% | 2 A proportion of committed accomodation costs that was expensed as direct costs pre IFRS 16 will be put on balance under IFRS 16 | 3 PBT will not be neutral over time due to "Frontloading" effect of new leases replacing existing leases | 4 Rental expenses from contracts with term of > 1 year

Estimated impact of IFRS 16 on FY20 financials[1] (2/2)

CASH FLOW STATEMENT *in €m*		FY19A
Reported EBIT	↗ **+70**	***768***
Depreciation	+595	*-509*
Cash interest	-95	*-80*
Change in working capital	-30	*-26*
Operating Cash Flow	↗ **+540**	***997***
Investing Cash Flow	→ No change	*-1,118*
FCF after dividend	↗ **+540**	***-597***
Change from financing (IFRS 16)	↘ **-540**	**-**
Total Cash Flow	→ **No change**	

BALANCE SHEET *in €bn*		FY19A
Right of use assets[3]	↗ +2.0	-
(Additional) lease liability	↗ +2.0	*1,495*

LEVERAGE *in €bn*		FY19A
Net debt	↗ +2.0	*0.9*
Adjusted gross debt	→ +/-0.2	*6.0*
Leverage ratio	→ Broadly stable	*3.0x*

- Operating cash flow to increase due to shift of payments to financing cash flow (except for interest element which remains in operating cash flow in management accounts)[2]
- No change in investing cash flow, thus higher FCF after dividend
- However, total cash flow will not change due to higher (negative) financing cash flow

- Increase in non-current assets (right of use assets), lease liability and net debt
- Adjusted gross debt & leverage ratio expected to remain broadly stable

1 The actual FY20 impact will depend on the timing and extent of future transactions as well as future market valuation conditions; thus the actual FY20 impact may deviate ~+/-5% | 2 In the Group's consolidated statement of cash flows, interest charges will be shown within cash flows from financing activities | 3 Right of use assets will be slightly higher than the lease liability due to lease prepayments

Summary

KEY MESSAGES & NEXT STEPS

KEY MESSAGES

- IFRS 16 is a significant accounting change but it has no economic effect on our business and cash flows
- IFRS 16 has a material impact on TUI Group's financial statements
- Additional lease liability of €2.3bn[1] recognised on balance sheet on 1 October 2019
- Presentation of depreciation & interest expenses instead of operating expenses (i.e. IAS 17 rent & accommodation expenses)
- Additional P&L volatility

NEXT STEPS

- 2019 is a transition year:
  - No restatement of comparative period FY19.
  - For comparisons we will provide FY20 adjusted figures on a pre-IFRS 16 basis
- First quarterly reporting under IFRS 16 will be Q1 FY20 results (without restatement of comparative period Q1 FY19)

1 Unaudited.

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