Dr Dieter Zetsche
Chairman of the Supervisory Board

c/o TUI AG | Board Office | Karl-Wiechert-Allee 4 | 30625 Hannover

To the Shareholders
of TUI AG

19.12.2019

2020 Annual General Meeting

Dear Shareholder,

As you will be aware, we will hold our next Annual General Meeting ("AGM") on the 11th February 2020. The agenda will be published on 2nd January 2020.

As a valued shareholder, we appreciate your vote at our Shareholder Meeting and as Chairman of the Supervisory Board of TUI AG, I am approaching you to ask for your support at our upcoming AGM:

In preparation, we are contacting you to bring to your attention an important topic that we believe will be of interest.

The amendment of the Executive Board remuneration system was approved at the 2018 AGM. Following external and internal feedback, we decided to conduct an extensive review of the system. It turned out that the approved remuneration system did not fully reflect the cyclical and seasonal nature of the business and thus did not fully fulfill its purpose to incentivise and reward the members of the Executive Board for their efforts and contribution for TUI and its stakeholders accordingly.

As announced in a letter to shareholders dated 26th January 2018, at the forthcoming AGM, TUI AG will be providing for a voluntary, legally non-binding vote on the remuneration scheme (Agenda Item 9). With this letter, I would like to give you the rationale behind the Board's recommendation for a vote in favour of the changes to the remuneration system, which I will explain in the following.

Approval of the amended Executive Board remuneration system (Agenda Item 9)

The external and internal feedback as well as the extensive review of the system with support of our external remuneration consultant conducted during the year 2019 resulted in the below proposal. The aim is to establish a more effective and sustainable remuneration system going forward whilst at the same time avoiding an increase in complexity.

The chosen financial performance indicators in combination with very narrow performance corridors resulted in no payouts in 2019 for both, the short-term incentive ("STI") and the long-term incentive ("LTI" granted for FY 16). To be clear, variable remuneration should be variable and can be nil in case of poor performance. At the same time, the contribution of the Executive Board should be rewarded appropriately. In the case where no payout can be expected for multiple years, despite good performance in a very challenging market environment, the variable remuneration element fails to fulfill its incentivising purpose and the design should be assessed carefully.

We are convinced that the proposed changes to the remuneration system include significant improvements, which are aligned with appropriate areas of best practice for TUI AG as well as the Executive Board's strategy for sustainable and profitable growth.

As in the past, the new remuneration system comprises three elements: base salary (fixed remuneration), STI and LTI (variable remuneration). The changes to the remuneration system affect the variable elements only and are not made in isolation but in the context of the total compensation system. The proposed changes can be summarised as follows and you will find an overview of the changes within the remuneration system compared to the system described in the remuneration report published on pages 130 et seq. of the Annual Report of the TUI Group 2019 attached hereto as an Annex:

1) <u>Amendments to STI</u>

- Stronger focus on reported EBIT (shift from EBT) as the most important financial KPI to measure short-term performance by increasing the weight to 75% at the expense of ROIC which is removed. Using Cash Flow before Dividend with a weight of 25% as the second financial KPI reflecting a greater alignment with the shareholders' perspective (shift from Cash Flow to the Firm)

- Widening of the performance corridors to better reflect the cyclical industry, external events beyond management control, the business model and to improve the effectiveness of the incentive as well as to mitigate very volatile outcomes

- Introduction of an adjustment element for extraordinary events (power of the Supervisory Board as foreseen by the clause G.11 of the draft German Corporate Governance Codex, which is expected to come into effect in February/March 2020). This clause states that the Supervisory Board shall have the possibility to account for extraordinary developments to an appropriate extent. This element takes into consideration special situations that were not sufficiently captured in the pre-determined targets, as opposed to unfavorable general market conditions

- Introduction of a claw-back clause

2) <u>Amendments to LTI</u>

- Removal of relative TSR as a KPI because of the lack of availability of a relevant peer group or peer group index for a proper relative comparison, thus focusing on EPS only (i.e. 100% weighting)

- Widening of the performance corridor to better reflect the cyclical industry, external events beyond management control, the business model and to improve the effectiveness of the incentive as well as to mitigate very volatile outcomes. The target for a 100% target achievement, being an average increase of 5% p.a. over a respective LTI grant, remains unchanged

- Introduction of a claw-back clause

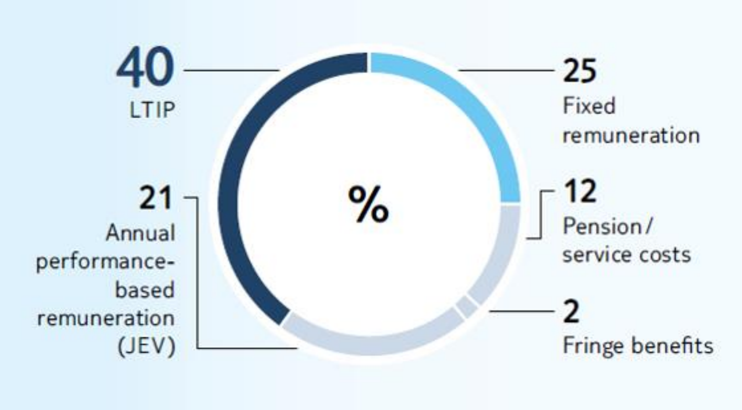
I hope that this letter helps to clarify the rationale for the Board's recommendations to vote in favour of Agenda Item 9 and that it serves as a reassurance for you that TUI's Supervisory Board acts in the best interests of all stakeholders.

Should you have any further questions, we would like to invite you to have a discussion on the above and any other corporate governance topics that you may wish to discuss or raise otherwise.
Please do not hesitate to contact us via the Investor Relations team at investor.relations@tui.com or our Head of Investor Relations, Nicola Gehrt, under +49 511 566 1435, and we will then schedule an appointment accordingly.

Yours sincerely

Dr Dieter Zetsche
Chairman of the Supervisory Board

Summary of amendments

	Until FY19	From FY20
Composition of total remuneration awarded		Unchanged
Fixed remuneration	Fixed salary payable in twelve equal instalments at the end of each month, taking into account the respective applicable tax and social security provisions.	Unchanged
STI		
Target Amount and CAP	Contractual agreed individual target amount and CAP	Unchanged
Over all target achievement	Sum of KPIs target achievment	Unchanged
	Interpolation Financial KPIs: 0%-180%	Unchanged
	Individual Performance: 0.8-1.2	Unchanged
	No Adjustment	Adjustment Element (in accordance with G.11 DCGK-E)
	No claw-back	Claw-back

Summary of amendments

	Until FY19	From FY20
STI cont'd		
Financial KPIs		
Group Performance Indicator 1	reported EBT	reported EBIT
Target Achievement	Actual versus defined target at constant currency	Unchanged
Performance Corridor	90%-110%	75%-115%
Weighting	50%	75%
Group Performance Indicator 2	Cash Flow to the firm	Cash Flow pre Dividend
Target Achievement	Actual versus defined target	unchanged
Performance Corridor	90%-110%	Defined target versus +/- 15% from EBIT at budget rates
Weighting	25%	Unchanged
Group Performance Indicator 3	ROIC	Elimination
Individual Performance	For each financial year, the supervisory board defines success criteria for the individual performance of the Beneficiary, the performance of the executive board and the achievement of stakeholder targets and their weighting	Unchanged (but focus on performance of the executive board and the achievement of stakeholder targets)
Performance Corridor	0,8-1,2	Unchanged

Summary of amendments

	Until FY19	From FY20
LTIP		
Target Amount and CAP	Contractual agreed individual target amount and CAP	Unchanged
Over all target achievement	Sum of KPIs target achievement	Only 1 KPI
	Interpolation KPI: 0%-175%	Unchanged
	Adjustment: EPS < EUR 0.50	Unchanged
	No claw-back	Claw-back
KPIs		
Group Performance Indicator 1	EPS	Unverändert
Target Achievement	EPS p.a. on basis of four weighted annual amounts	Unverändert
Performance Corridor	Ø 3% growth p.a - Ø 10% growth p.a.	Ø 50% Start EPS - Ø 10% p.a.; Ø 5% p.a. growth remains target for 100% target achievement
Weighting	50%	100%
Group Performance Indicator 2	TSR	Elimination

Summary of amendments

	Until FY19	From FY20
LTIP cont'd		
Shares	Allocation of a provisional number of virtual shares calculated as the ratio of the individual target amount agreed to the average XETRA price of TUI AG shares	Unchanged
	Final number of virtual shares as the product of the provisional number of virtual shares and the degree of target achievement of KPIs	Unchanged
Payout	Multiplication of final number of virtual shares by the average XETRA price of TUI AG shares	Unchanged
Fringe Benefits	as described in the remuneration report	Unchanged
Pension	Pension Commitment / Pension Payment	Unchanged