

Active Principal Risks

Nature of Risk

1. IT DEVELOPMENT & STRATEGY

Our focus is on enhancing customer experience by providing engaging, intuitive, seamless and continuous customer service through delivery of leading digital solutions, core platform capabilities, underlying technical infrastructure and IT services required to support the Group's overall strategy for driving profitable top-line growth.

If we are ineffective in our IT strategy or technology development this could impact on our ability to provide leading technology solutions in our markets and therefore impacting on our competitiveness, our ability to provide a superior customer experience and associated impact on quality and operational efficiency. This would ultimately impact on our customer numbers, revenue and profitability.

Mitigating Factors

- Developed and communicated (in conjunction with Executives, Business & IT Leadership Teams) the Group's IT Strategy which is clearly aligned to our overall business objectives and considers external factors such as the pace of technology change and internal factors such as the underlying quality required throughout IT.
- Continuing to implement our online platform in order to enhance customer experience and drive higher conversion rates.
- Implementing a SAP-based central customer platform to collate all information on our customers across their journey to provide a single view of the customer alongside an eCRM platform which will support strategic marketing.
- Placing increased focus on ensuring continuity plans for critical IT systems are in place and regularly tested.
- Cascaded clear technology standards and associated delivery roadmaps which are linked to Group wide and individual market objectives.
- Adopting API, Big Data and Cloud architecture to drive improved speed, productivity and efficiency.

Nature of Risk

2. GROWTH STRATEGY

We have set ourselves a target of achieving at least 10% growth in underlying EBITA CAGR (see page 57). This will be driven by growth in our hotel and cruises content, the destination experiences sector as well as top line and efficiency improvements.

Additionally our in-house aviation allows us to introduce extra flexibility into our packages and to utilise our flight capacity in conjunction with own hotel capacity to build high profile destinations.

Asset utilisation of aircraft, cruise ships and hotels is critical to our financial success particularly when in a growth phase.

There is a risk that we could be unsuccessful in maximising opportunities to execute our expansion strategy. This could mean that we fail to achieve some of the initiatives we have embarked upon, which could result in us falling short against the overall growth targets we have set for the business.

3. INTEGRATION & RESTRUCTURING OPPORTUNITIES

Our key strategic rationale for the Group is to act 'as one' wherever it makes sense to do so particularly through our Group Platforms, whilst maintaining local differences where the benefit of that differentiation is greater than that of harmonisation.

There are a number of restructuring projects underway across the Group as a result to enable us to achieve these opportunities. Furthermore our continuous review of our own businesses and competitors means that we have an active programme of acquisitions (e.g. the destination management companies from Hotelbeds this year) and previously business disposals (e.g. Travelopia in FY 2017) with associated integration projects.

There is an inherent risk with any large restructuring or integration programme that we face challenges in managing the complexities associated with further integrating our business, and reducing overlapping activities in order to develop a more lean and streamlined operating model.

If we are not successful in leveraging and optimizing the identified opportunities this could have a significant impact on our ability to deliver the identified benefits in line with expectations and enhance shareholder value.

Mitigating Factors

- Using Blockchain technology to manage hotel bed allocation in all markets to be ahead of the competition.
- The Executive Board is very focussed on the strategy and mindful of the risks, so there is strong direction and commitment from the top. The remuneration scheme in place for the Executive Board is designed to create incentives for the Group's sustained growth and robust financial performance (see from page 128).
- The Group Tourism Board plays an important role in coordinating, executing and monitoring the various growth initiatives.
- There are a number of initiatives underway to achieve growth which reduces the risk through diversification.
- Each of the businesses tasked with achieving an element of the growth strategy are still required to maintain sound financial discipline. The Group's investment criteria and authorisation processes must still be adhered to as we are not prepared to be reckless in the pursuit of growth.
- We continue to maintain strong relationships with the providers of aircraft finance.
- Monitoring the overall market conditions continues to occur so that plans can be adapted or contingency plans invoked if required.

- Strong project management structures exist for all of the major restructuring, acquisition and disposal programs, which are underway to ensure that they are managed effectively.
- Project reporting tool ensures enhanced visibility of the progress of major projects as a matter of routine.
- Regular reporting by the major projects to the Executive Board to ensure swift resolution of any issues or to enhance coordination across the Group where required.

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Mitigating Factors**4. CORPORATE & SOCIAL RESPONSIBILITY**

For the Group, economic, environmental and social sustainability is a fundamental management principle and a cornerstone of our strategy for continually enhancing the value of our Company. This is the way we create the conditions for long-term economic success and assume responsibility for sustainable development in the tourism sector.

Our focus is to reduce the environmental impact of our holidays and promote responsible social policies and outcomes both directly through our own business and indirectly via our influence over our supply chain partners, thereby creating positive change for people and communities and being a pioneer of sustainable tourism across the world.

There is a risk that we are not successful in driving forecast social and environmental improvements across our operations, that our suppliers do not uphold our corporate and social responsibility standards and we fail to influence destinations to manage tourism more sustainably.

If we do not maximize our positive impact on destinations and minimize the negative impact to the extent that our stakeholders expect, this could result in a decline in stakeholder confidence, reputational damage, reduction in demand for our products and services and loss of competitive advantage.

Furthermore, if the Group falls short of achieving its sustainable development targets and at the same time the objectives of the UN Paris Climate Change Agreement (December 2015) are not met, this could lead to sustained long-term damage to some of the Group's current and future destinations, which could also have a material adverse effect on demand for our products and services.

- Developed and launched in 2015 the 'Better Holidays, Better World' 2020 sustainability strategy framework which includes specific targets for key sustainability indicators.
- Established a dedicated sustainability department to work closely with the business and other stakeholders to implement the sustainability strategy.
- Operating one of the most carbon efficient airlines in Europe with continued investment in new, more efficient aircraft (e.g. Boeing 787 Dreamliner & 737 Max) and cruise ships (e.g. the new Mein Schiff 1 & 2).
- Implemented an environmental management system with five of our airlines having achieved ISO 14001 certification.
- Increased measures to influence accommodation suppliers to achieve third party sustainability certification recognized by the Global Sustainable Tourism Council (GSTC).
- TUI Care Foundation expanded to focus on the achievement of 2020 target for charitable donations and sustainability projects, with particular emphasis empowering young people, protecting the natural environment and maximizing the economic benefits of tourism in destinations.

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Mitigating Factors**5. INFORMATION SECURITY**

Our responsibility is to protect the confidentiality, integrity and availability of the data we have to provide to our customers, employees, suppliers and service delivery teams.

This is a dynamic risk due to increased global cyber-crime activity and new regulations (e. g. EU GDPR). At the same time our consolidation under the TUI brand and our increasing dependence on online sales and customer care channels (web/mobile) increases our exposure and susceptibility to cyber-attacks and hacks.

If we do not ensure we have the appropriate level of security controls in place across the Group, this could have a significant negative impact on our key stakeholders, associated reputational damage and potential for financial implications.

- Continued commitment from the Executive Board in support of key initiatives to ensure all existing and future IT systems are secure by design, that exposure to vulnerability is managed effectively, user access is sufficiently controlled and colleagues are made aware of information security risks through appropriate training.
- Launch of a company-wide Information Security awareness campaign to promote secure behaviors amongst our colleagues. Overall goal is to make information security part of everyone's job.
- Continuous review and testing of all external devices and ongoing monitoring of logs in order to identify any potential threats as and when they arise.
- Continuous improvement through lessons learned from real or simulated cyber incidents.

6. BREXIT

Our main concern is whether or not all of our airlines will continue to have access to EU airspace as now. If we were unable to continue to fly intra-EU routes, such as from Germany to Spain, this would have a significant operational and financial impact on the Group.

Other areas of uncertainty include the status of our UK employees working in the EU and vice versa and the potential for customer visa requirements for holidays from the UK to the EU.

- The Executive Board has established a Brexit Steering Committee to monitor developments as the political negotiations take place, assess any impacts on the Group's business model and coordinate suitable mitigation strategies to be taken ahead of March 2019, when the UK will be formally exiting the European Union.
- In addition we continue to lobby relevant UK and EU ministers, officials and regulators to stress the continued importance of a liberalized and deregulated aviation market across Europe to protect consumer choice in both regions.

Monitored Principal Risks

A. DESTINATION DISRUPTION

Providers of holiday and travel services are exposed to the inherent risk of incidents affecting some countries or destinations within their operations. This can include natural catastrophes such as hurricanes or tsunamis; outbreaks of disease such as Ebola; political volatility as has been seen in Egypt and Greece in recent years; the implications of war in countries close to our markets and destinations; and terrorist events such as the tragic incident in Tunisia in 2015.

There is the risk that if such an event occurs, impacting one or more of our destinations that we could potentially suffer significant operational disruption and costs in our businesses. We may possibly be required to repatriate our customers and/or the event could lead to a significant decline in demand for holidays to the affected destinations over an extended period of time.

- Whilst we are unable to prevent such events from occurring, we have well defined crisis management procedures and emergency response plans, which are implemented when an event of this nature occurs, with the focus being on the welfare of our customers.
- Where the appropriate course of action is to bring customers home immediately, our significant fleet of aircraft allows us to do this smoothly and efficiently.
- Our policy is to follow foreign office advice in each of our markets with regards to non-essential travel. This serves to minimize the exposure of our customers to turbulent regions.
- Due to our presence in all key holiday regions, when a specific destination has been impacted by an external event, we are able to offer alternative destinations to our customers and to remix our destination portfolio away from the affected area in future seasons if necessary.
- We always assume some level of destination disruption each year when setting financial plans and targets, so that we are able to cope with a 'normal' level of disruption without it jeopardizing achievement of our targets.

B. MACROECONOMIC

Spending on travel and tourism is discretionary and price sensitive. The economic outlook remains uncertain with different markets at different points in the economic cycle. Furthermore, terrorist incidents in markets can influence the overall demand for overseas travel. Customers are also waiting longer to book their trips in order to assess their financial situation.

There is the risk that fluctuations in macroeconomic conditions in our markets will impact on the spending power of our customers, which could impact our short-term growth rates and lead to margin erosion.

- Many customers prioritize their spending on holidays above other discretionary items.
- Creating unique and differentiated holiday products which match the needs of our customers.
- Leveraging our scale to keep costs down and prices competitive.
- Having a range of markets so that we are not over exposed to one particular economic cycle.
- Promoting the benefits of travelling with a recognized and leading tour operator to increase customer confidence and peace of mind.

Nature of Risk

C. COMPETITION & CUSTOMER PREFERENCES

The tourism industry is fast-paced and competitive with the emergence of new market participants operating new business models, combined with customer tastes and preferences evolving all the time.

In recent years there has been an emergence of successful substitute business models such as web-based travel and hotel portals which allow end users to combine the individual elements of a holiday trip on their own and book them separately.

Customer tastes and preferences have evolved in recent years as well, with more booking their holidays online and via mobiles and tablets, and booking closer to the time of travel.

There is the risk that if we do not respond adequately to such business model disruption or if our products and services fail to meet changing customer demands and preferences, that our turnover, market share and profitability will suffer as a result.

D. INPUT COST VOLATILITY

A significant proportion of operating expenses are in non-local currency and/or relate to aircraft fuel which therefore exposes the business to fluctuations in both exchange rates and fuel prices.

There is the risk that if we do not manage adequately the volatility of exchange rates, fuel prices and other input costs, then this could result in increased costs and lead to margin erosion, impacting on our ability to achieve profit targets.

There is also the risk that if our hedging policy is too rigid, we may find ourselves unable to respond to competitive pricing pressures during the season without it having a direct detrimental impact on our market position and/or profitability.

Furthermore, changes in macroeconomic conditions can have an impact on exchange rates which, particularly for the £/€ rate and this year for the TRY/€ rate, has a direct impact on the translation of non-euro market results into euros, the reporting currency of our Group.

Mitigating Factors

- Our outstanding market position as a leading tourism group, the strength of our brand and our integrated business model enables us to respond robustly to competitive threats.
- The Group is characterized by the continuous development of unique and exclusive holiday experiences, developing new concepts and services which match the needs and preferences of our customers.
- Our integrated business model offers end-to-end customer services, from consultation and booking of holidays via flights with the Group's own airlines through to Group-owned or operated hotels, resorts and cruise ships. Integration thus facilitates the development and marketing of individual, tailored holiday offerings for customers which is difficult for competitors to replicate.
- Building strong and lasting relationships with our key hotel partners, which further reinforces our ability to develop new concepts exclusive to the Group.
- Focusing on being online throughout the whole of the customer journey – from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media.

- Ensuring that the appropriate derivative financial instruments are used to provide hedging cover for the underlying transactions involving fuel and foreign currency.
- Maintaining an appropriate hedging policy to ensure that this hedging cover is taken out ahead of the markets' customer booking profiles. This provides a degree of certainty over input costs when planning pricing and capacity, whilst also allowing some flexibility in prices so as to be able to respond to competitive pressures if necessary.
- Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies.
- Expressing our key profit growth target in constant currency terms so that short term performance can be assessed without the distortion caused by exchange rate fluctuations.

➔ Further information on currency and fuel hedges can be found in the Notes to the consolidated financial statements in the financial instruments section.

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E. SEASONAL CASHFLOW PROFILE

Tourism is an inherently seasonal business with the majority of profits earned in the European summer months. Cash flows are similarly seasonal with the cash high occurring in the summer as advance payments and final balances are received from customers, with the cash low occurring in the winter as liabilities have to be settled with many suppliers after the end of the summer season.

There is the risk that if we do not adequately manage cash balances through the winter low period this could impact on the Group's liquidity and ability to settle liabilities as they fall due whilst ensuring that financial covenants are maintained.

Mitigating Factors

- Our focus on holiday experiences is helping to reduce the seasonality risk, as hotels, cruises and destination experiences have a more evenly distributed profit and cash profile across the year. This is highlighted by the fact that the Group made an underlying operating profit for the second successive year over the nine months to 30 June.
- As our business is spread across a number of markets, there are some counter-cyclical features e.g. winter is a more important season for the Nordic and Canadian markets. Some brands, such as the UK ski brand Crystal Ski, have a different seasonality profile which helps to counter-balance the overall profile.
- The business regularly produces both short term and long term cash forecasts during the year, which the Treasury department use to manage cash resources effectively.
- We have implemented a financial policy which has led to an improvement in our credit rating and makes it easier to maintain financing facilities at suitable levels.
- Existing financing facilities are considered to be more than sufficient for our requirements and provide ample headroom.
- We continue to maintain high-quality relationships with the Group's key financiers and monitor compliance with the covenants contained within our financing facilities.
- Raising additional finance from the Capital Markets, should it be required, remains an option.

F. LEGAL & REGULATORY COMPLIANCE

Most providers of holiday and travel services operate across a number of economies and jurisdictions, which therefore exposes them to a range of legal, tax and other regulatory laws which must be complied with.

As we are operating from multiple source markets and providing holidays in more than 115 destinations, we are exposed to a range of laws and regulations with which we must comply or else risk incurring fines or other sanctions from regulatory bodies.

- Communication and strong tone from the top concerning compliance with laws and regulations.
- Legal Compliance Committee established to ensure appropriate oversight, monitoring and action plans and to further drive the compliance culture across the Group.
- Embedded legal and tax expertise in all major businesses responsible for maintaining high quality relationships with the relevant regulators and authorities.
- Ongoing implementation and review of Compliance Management System conducted by the Group Legal Compliance department to monitor compliance with regulations and provide expert advice to local teams on specific compliance areas.

Nature of Risk

Mitigating Factors**G. HEALTH & SAFETY**

For all providers of holiday and travel services, ensuring the health and safety of customers is of paramount importance. This is especially so for us as we are one of world's leading tourism group selling holidays to over 27 m customers per annum.

There is the risk of accidents or incidents occurring causing illness, injury or death to customers or colleagues whilst on a TUI holiday. This could result in reputational damage to the business and/or financial liabilities through legal action being taken by the affected parties.

- Health and safety functions are established in all businesses in order to ensure there is appropriate focus on health and safety processes as part of the normal course of business.
- Ongoing monitoring is conducted by the Group Security, Health & Safety function to ensure compliance with minimum standards.
- Appropriate insurance policies are in place for when incidents do occur.

H. SUPPLIER RELIANCE

Providers of holiday and travel services are exposed to the inherent risk of failure in their key suppliers, particularly hotels. This is further heightened by the industry convention of paying in advance ('prepayments') to secure a level of room allocation for the season.

There is the risk that we do not adequately manage our financial exposure should demand drop either for individual hotels and/or for the destination in which the hotels are located and to which the Group still has a level of prepayment outstanding which could result in financial losses.

- Owned and joint venture partner hotels form a substantial part of our program which reduces our inherent risk in this area.
- A robust prepayment authorisation process is established and embedded to both limit the level of prepayments made and ensure that they are only paid to trusted, credit-worthy counterparties.
- Where prepayments are made to external hoteliers, this is to secure access to unique and differentiated product for which demand is inherently higher and more resilient to external events than for commodity product.
- Prepayments are monitored on a timely and sufficiently granular basis to manage our financial exposure to justifiable levels.

I. JOINT VENTURE PARTNERSHIPS

It is common for tourism groups to use joint venture partnerships in some of their operations in order to reduce the risk of new ventures or to gain access to additional expertise. There are three significant joint ventures within the Group – Riu, TUI Cruises and Sunwing.

There is the risk that if we do not maintain good relations with our key partners that the ventures' objectives may not remain consistent with that of the Group which could lead to operational difficulties and jeopardize the achievement of financial targets.

- Good working relationships exist with all of our main joint venture partners and they are fully aligned with and committed to the growth strategy of the Group.