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# RISK REPORT

Successful management of existing and emerging risks is critical to the long-term success of our business and to the achievement of our strategic objectives. In order to seize market opportunities and leverage the potential for success, risk must be accepted to a reasonable degree. Risk management is therefore an integral component of the Group's Corporate Governance.

## Risk Governance

**TUI Group Risk Management Roles & Responsibilities**

### EXECUTIVE BOARD
Direct & Assure

- *Overall responsibility for risk management*
- *Determine strategic approach to risk*
- *Approve risk policy including risk appetite and set tone at the top*
- *Agree how principal risks are managed, mitigated and monitored*
- *Review the effectiveness of the risk management system*

### RISK OVERSIGHT COMMITTEE (ROC)
Review & Communicate

- *Formulate risk strategy and policy*
- *Discuss and propose risk appetite*
- *Summarise principal risks*
- *Ensure effective monitoring*
- *Report back to Executive Board*

### GROUP RISK TEAM
Support & Report

### BUSINESS & FUNCTIONS
Identify & Asses

- *Understand key risks*
- *Review key risks and mitigation*
- *Manage and monitor risks*
- *Report on risk status*

### RISK CHAMPION COMMUNITY

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**EXECUTIVE BOARD – DIRECT & ASSURE**

With oversight by the Supervisory Board, the Executive Board determines the strategic direction of the Group and agrees the nature and extent of the risks it is willing to take to achieve its strategic objectives.

To ensure that the strategic direction chosen by the business represents the best of the strategic options open to it, the Executive Board is supported by the Group Strategy function. This function exists to facilitate the Executive Board's assessment of the risk landscape and development of potential strategies by which it can drive long-term shareholder value. As a standard procedure, the Group Controlling function develops an in-depth fact base in a consistent format which outlines the market attractiveness, competitive position and financial performance by division and market. These are then used to facilitate debate as to the level and type of risk that the Executive Board finds appropriate in the pursuit of its strategic objectives. The strategy, once fully defined, considered and approved by the Executive Board, is then incorporated into the Group's three-year roadmap and helps to communicate the risk appetite and expectations of the organisation both internally and externally.

Ultimately, accountability for the Group's risk management rests with the Executive Board and therefore it has established and maintains a risk management system to identify, assess, manage and monitor risks which could threaten the existence of the company or have a significant impact on the achievement of its strategic objectives: these are referred to as the principal risks of the Group. This risk management system includes an internally-published risk management policy which helps to reinforce the tone set from the top on risk, by instilling an appropriate risk culture in the organization whereby employees are expected to be risk aware, control minded and 'do the right thing'. The policy provides a formal structure for risk management to embed it in the fabric of the business. Each principal risk has assigned to it a member of the Executive Committee as overall risk sponsor to ensure that there is clarity of responsibility and to ensure that each of the principal risks are understood fully and managed effectively.

The Executive Board regularly reports to the Audit Committee of the Supervisory Board on the adherence to both the UK and German listing requirements, the overall risk position of the Group, on the individual principal risks and their management, and on the performance and effectiveness of the risk management system as a whole.

RISK OVERSIGHT COMMITTEE – REVIEW & COMMUNICATE

On behalf of the Executive Board, the Risk Oversight Committee (the "ROC"), a subset of the Executive Committee, ensures that business risks are identified, assessed, managed and monitored across the businesses and functions of the Group. Meeting on at least a quarterly basis, the ROC's responsibilities include considering the principal risks to the Group's strategy and the risk appetite for each of those risks, assessing the operational effectiveness of the mitigation in place to manage those risks and any action plans to further mitigate them, as well as reviewing the bottom-up risk reporting from the businesses themselves to assess whether there are any heightened areas of concern.

Senior executives from the Group's major businesses are required to attend the ROC on a rotational basis and present on the risk and control framework in their business, so that the members of the ROC can ask questions on the processes in place, the risks present in each business and any new or evolving risks which may be on their horizon, and also to seek confirmation that an appropriate risk culture continues to be in place in each of the major businesses.

Chaired by the Chief Financial Officer, senior operational and finance management as well as all of the second lines of defense functions are represented on the committee.

The ROC reports bi-annually to the Executive Board to ensure that it is kept abreast of changes in the risk landscape and developments in the management of principal risks, and to facilitate regular quality discussions on risk management at the Executive Board meetings.

GROUP RISK DEPARTMENT – SUPPORT & REPORT

The Executive Board has also established a Group Risk department to ensure that the risk management system functions effectively and that the risk management policy is implemented appropriately across the Group. The department supports the risk management process by providing guidance, support and challenge to management whilst acting as the central point for coordinating, monitoring and reporting on risk across the Group. It also supports the ROC in fulfilling it's duties and the reporting to both the Executive and Supervisory Boards. Additionally, Group Risk is responsible for the operation of the risk and control software that underpins the Group's risk reporting and risk management process.

BUSINESSES & FUNCTIONS – IDENTIFY & ASSESS

Every business and function in the Group is required to adopt the Group Risk Management policy. In order to do this, each either has their own risk committee or includes risk as a regular agenda item at their Board meetings to ensure that it receives the appropriate senior management attention within their business. In addition, the businesses each appoint a Risk Champion, who promotes the risk management policy within their business and ensures its effective application. The Risk Champions are in close contact with Group Risk and are critical both in ensuring that the risk management system functions effectively, and in implementing a culture of continuous awareness and improvement in risk management and reporting.

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## Risk Appetite

The Executive Board and Audit Committee, in conjunction with the Risk Oversight Committee has reviewed the Group's risk appetite. The results of the review indicate the board's risk appetite across four risk types:

Strategic – a higher appetite, in order to to deliver superior returns to our shareholders. This is particular relevant due to the COVID-19-pandemic, whereby the restructuring strategy must be delivered promptly.

Compliance – a lower risk appetite to exposure of compliance related risks including adhering to regulatory requirements, protecting information in all forms as well as avoiding harm to customers, employees and all other stakeholders.

Financial – lower risk appetite with exposure to financial risks. The Group seeks to achieve financial stability and certainty in particular during the pandemic as the scrutiny of costs and cash management has been heightened.

Operational – moderate level to all other operational risks where the board seeks to manage them responsibly to create unique holidays for our customers but recognises as a matter of course we operate in a market environment characterised by macroeconomic and geopolitical challenges.

Our principal risks are aligned to these risk types.

## Risk Reporting

The Group Risk department applies a consistent risk reporting methodology across the Group. This is underpinned by risk and control software which reinforces clarity of language, visibility of risks, mitigation and actions and accountability of ownership. Although the process of risk identification, assessment and response is continuous and embedded within the day-to-day operations of the businesses and functions, it is consolidated, reported and reviewed at varying levels throughout the Group on at least a quarterly basis.

**Risk Identification:** Management closest to the risks identify those that are relevant to the pursuit of the strategy within their business area in the context of four risk types:

- Longer-term strategic and emerging threats;
- Medium-term challenges associated with business change
- Short-term risks triggered by changes in the external and regulatory environment; and
- Short-term risks in relation to internal operations and control.

A risk owner is assigned to each risk, who has the accountability and authority for ensuring that the risk is appropriately managed.

**Risk Descriptions:** The nature of the risk is articulated in line with best practice, stating the underlying concern the risk gives arise to, identifying the possible causal factors that may result in the risk materializing and outlining the potential consequences should the risk crystalise. This allows the businesses, functions and the Group to assess the interaction of risks and potential triggering events and / or aggregated impacts before developing appropriate mitigation strategies for causes and / or consequences.

**Risk Assessment:** The methodology used is to initially assess the gross (or inherent) risk. This is essentially the downside, being the product of the impact together with the likelihood of the risk materializing if there is no mitigation in place to manage or monitor the risk. The key benefit of assessing the gross risk is that it highlights the potential risk exposure if mitigation were to fail completely or not be in place at all. Both impact and likelihood are scored on a rating of 1 to 5 using the criteria shown below:

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### Impact Assessment

| MINOR | MODERATE | SIGNIFICANT | MAJOR | SERIOUS |
|---|---|---|---|---|
| Impact on | Impact on | Impact on | Impact on | Impact on |
| Financials (Sales and / or Costs)<br>Reputation<br>Technology reliability<br>Compliance<br>Health & Safety standards<br>Programme Delivery | Financials (Sales and / or Costs)<br>Reputation<br>Technology reliability<br>Compliance<br>Health & Safety standards<br>Programme Delivery | Financials (Sales and / or Costs)<br>Reputation<br>Technology reliability<br>Compliance<br>Health & Safety standards<br>Programme Delivery | Financials (Sales and / or Costs)<br>Reputation<br>Technology reliability<br>Compliance<br>Health & Safety standards<br>Programme Delivery | Financials (Sales and / or Costs)<br>Reputation<br>Technology reliability<br>Compliance<br>Health & Safety standards<br>Programme Delivery |

### Likelihood Assessment

| RARE | UNLIKELY | POSSIBLE | LIKELY | ALMOST CERTAIN |
|---|---|---|---|---|
| < 10 % Chance | 10 – < 30 % Chance | 30 – < 60 % Chance | 60 – < 80 % Chance | ≥ 80 % |

The next step in the risk reporting process is to assess and document the mitigation currently in place to reduce the likelihood of the risk materializing and / or its impact if it does. Consideration of these then enables the current (or residual) risk score to be assessed, which is essentially the reasonably foreseeable scenario. This measures the impact and likelihood of the risk with the mitigation in place and effective. The key benefit of assessing the current risk score is that it provides an understanding of the current level of risk faced today and the reliance on the mitigation in place.

**Risk Response:** If management are comfortable with the current risk score, the risk is accepted and no further action is required to further reduce the risk. The mitigation continues to be operated and management monitor the risk, the mitigation and the risk landscape to ensure that it remains at an acceptable level.

If management assesses that the current risk score is too high, an action plan will be drawn up with the objective of introducing new or stronger mitigation that will further reduce the impact and / or likelihood of the risk to an acceptable level. This is known as the target risk score and is the parameter by which management can ensure the risk is being managed in line with their overall risk appetite. The risk owner will normally be the individual tasked with ensuring that this action plan is implemented within an agreed timetable.

Each business and function will continue to review their risk register on an ongoing basis through the mechanism appropriate for their business e. g. local Risk Committee.

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This bottom-up risk reporting is considered by the ROC alongside the Group's principal risks. New risks are added to the Group's principal risk register if deemed to be of a significant nature so that the ongoing status and the progression of key action plans can be managed in line with the Group's targets and expectations.

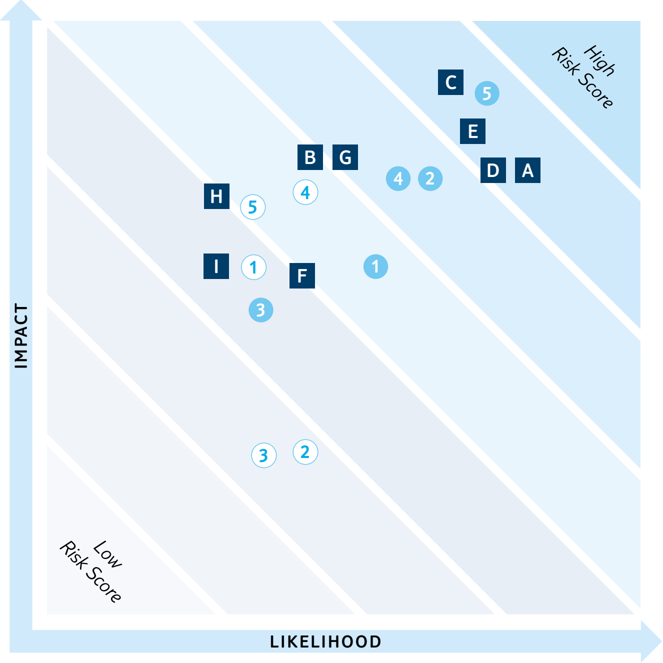
AD HOC RISK REPORTING

Whilst there is a formal process in place for reporting on risks on a quarterly basis, the process of risk identification, assessment and response is continuous and therefore if required, risks can be reported to the Executive Board outside of the quarterly process, should events dictate that this is necessary and appropriate. Ideally such ad hoc reporting is performed by the business or function which is closest to the risk, but it can be performed by the Group Risk department if necessary.

ENTITY SCOPING

A robust exercise is conducted each year to determine the specific entities in the Group which need to be included within the risk and control software and therefore be subject to the full rigour of the risk reporting process. The scoping exercise starts with the entities included within the Group's consolidation system, and applies materiality thresholds to a combination of revenue, profit and asset benchmarks. From the entities in the consolidation system, this identifies the levels at which these entities are operationally managed and therefore need to be included in the risk and control software itself to facilitate completeness of bottom-up risk reporting across the Group. This ensures that the risks are able to be captured appropriately at the level at which the risks are being managed.

**Principal Risk Heat Map**




ACTIVE RISKS

CURRENT RISK POSITION

TARGET RISK POSITION

1 *IT Development & Strategy*
2 *Integration & Restructuring Opportunities*
3 *Corporate & Social Responsibility*
4 *Information Security*
5 *Impact of Brexit*

MONITORED RISKS

CURRENT RISK POSITION

A *Destination Disruptions*
B *Talent & Leadership Development*
C *Customer Demand*
D *Input Cost Volatility*
E *Cash Flow Profile*
F *Legal & Regulatory Compliance*
G *Health & Safety*
H *Supplier Reliance*
I *Joint Venture Partnerships*

CURRENT RISK POSITION

This shows the current level of risk faced today after taking in to account the controls that are in place and which are operating as intended.

TARGET RISK POSITION

This shows the target level of risk deemed to be an acceptable, tolerable and justifiable risk position after further actions have been implemented to mitigate the risk.

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EFFECTIVENESS OF THE RISK MANAGMENT SYSTEM

The Executive Board regularly reports to the Audit Committee of the Supervisory Board on the performance, effectiveness and adherence to listing requirements of the risk management system, supported by the ROC and the Group Risk department. Additionally, the Audit Committee receives assurance from Group Audit through its audit plan over a selection of principal risks, processes and business transformation initiatives most critical to the Group's continued success.

The conclusion from all of the above assurance work is that the risk management system has functioned effectively throughout the year and there have been no significant failings or weaknesses identified. Of course there is always room for improvement, and the Risk Champions and the Group Risk department continue to work together to enhance the risk management and reporting processes. Broadly this concerns ensuring consistency of approach in assessing risk scores, clearer identification of mitigation currently in place as well as any action plans to introduce further mitigation, and ensuring that risk identification has considered all four risk types.

Finally, in accordance with Section 317 (4) HGB (German Commercial Code), the auditor of TUI AG has reviewed the Group's early detection system for risks in place as required by Section 91 (2) AktG (German Stock Corporation Act) to conclude, if the system can fulfill its duties.

## Principal Risks

The principal risks to the Group are either considered to be 'Active' or 'Monitored'.

Active principal risks are those that we have to actively manage in order to bring them into line with our overall risk appetite. We have action plans in place to increase or strengthen mitigation around each of these risks and reduce the current risk score to the target level indicated in the heat map diagram.

Monitored principal risks are those generally inherent to the tourism sector and faced by all businesses in the industry. For these, we have controls, processes and procedures in place as a matter of course that serve to mitigate each risk to either minimize the likelihood of the event occurring and/or minimize the impact if it does occur. These risks remain on our risk radar where we regularly monitor the risk, the mitigation and the risk landscape to ensure that the risk score stays stable and in line with our risk appetite in each case.

In the heat map diagram, the assessment criteria used are shown on page 36.

## Financial year 2020 Principal Risks

Several principal risks materialised simultaneously as a result of the COVID-19-pandemic, which has led to travel restrictions across the world, both within the Markets as well as in destination countries. These include customer demand, input cost volatility, cashflow profile, destination disruption and health & safety. All of these principal risks continue to remain heightened throughout the pandemic.

Measures taken in order to react to this crisis have also heightened the principal risk profile. Therefore the integration & restructuring risk has increased, due to the volume and speed of the restructuring required; and the Talent & Leadership risk, due to the cost saving measures related to our employees. Furthermore Growth Strategy is no longer a principal risk due to the change required in the Group's strategy to focus on costs and consolidation rather than growth of our asset businesses such as Hotels and Cruises.

There is a material uncertainty as to when the TUI Group's travel activities can be fully resumed. If tourism operations cannot be fully resumed in the long term, this might jeopardise the continuation of the Group's business operations, since the companies of the TUI Group might then not be able to realise their assets and repay their liabilities in the ordinary course of business. This situation means that TUI is threatened with insolvency in the first calendar quarter 2021 unless further measures are taken and implemented. Measures such as the utilisation of government aid and the significant reduction of fixed costs, serve to minimise the impact of the COVID-19-pandemic on the Group's liquidity. In order to continue to have sufficient financial resources even in the absence of an increase in new travel bookings and the associated advance payments, TUI has agreed a further financing package of € 1.8 bn with Unifirm Ltd, a banking consortium, KfW and the Economic Stabilization Fund (WSF). A corresponding term sheet was signed on 2 December 2020.

*For further information please refer to the Viability Statement on page 47.*

The support and stabilization package is described in detail in the chapter Going Concern Reporting in accordance with the UK Corporate Governance Code in the Notes.

*See chapter Going Concern Reporting in accordance with UK Corporate Governance Code, page 151.*

During this period of travel suspension, the Executive Board continues to monitor the key risks, particularly those heightened risks such as customer demand and those that impact the financial profile (i. e. cost volatility and cash flow) of the Group.

If the risk detail in the subsequent tables does not suggest otherwise, the risks shown below relate to all segments of the Group. The risks listed are the principal risks to which we are exposed but are not exhaustive and will evolve over time due to the dynamic nature of our business.

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## Active Principal Risks

| Nature of Risk | Mitigating Factors |
|---|---|
| **1. IT DEVELOPMENT & STRATEGY** | |
| Our focus is on enhancing customer experience by providing engaging, intuitive, seamless and continuous customer service through delivery of digital solutions, core platform capabilities, underlying technical infrastructure and IT services required to support the Group's overall strategy for driving profitable topline growth.<br><br>Although the Group's strategy has ensured that we are more vertically integrated, which has reduced impact of disruption by pure digital players, an ineffective IT strategy or technology development could impact on our ability to provide leading technology solutions in our markets. This would therefore impact on our competitiveness, our ability to provide a superior customer experience as well as on quality and operational efficiency. This would ultimately impact on our customer numbers, revenue and profitability. | • 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 technological change and internal factors such as the underlying quality required throughout IT.<br>• Continuing to implement our online platform, moving from retail to online to mobile in order to enhance customer experience and drive higher conversion rates.<br>• Progressing with the implementation of TRIPS, our new IT platform, which will be introduced to all of our Markets businesses.<br>• 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.<br>• Integration and development of Musement IT platform as technology driver for Customer Experience.<br>• Placing increased focus on ensuring continuity plans for critical IT systems are in place and regularly tested.<br>• Cascaded clear technology standards and associated delivery roadmaps which are linked to Group wide and individual market objectives.<br>• Adopting API, Big Data, and Cloud & DevOps architecture to drive improved speed, productivity and efficiency. |
| **2. INTEGRATION & RESTRUCTURING** | |
| Our key principle for integration and restructuring is to consolidate where possible and to localize where needed, particularly throughout our Group Platforms and the Markets & Airline businesses.<br><br>As a result, there are a number of harmonization projects underway across the Group to enable us to leverage synergies. 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) and business disposals (e. g. Boomerang Reisen and Berge & Meer businesses) with associated integration projects. In the light of COVID-19 we have downsized our acquisition programme and focus more strongly on disposal options. | • The establishment of the Markets & Domain Transformation Board to oversee the standardization of processes across the Markets businesses.<br>• 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.<br>• Project reporting tool ensures enhanced visibility of the progress of major projects as a matter of routine.<br>• 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.<br>• Execution of structural solutions in a time with low business volume is an additional mitigating factor, as it significantly reduces potential impact of disruptions related to the change. |

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| Nature of Risk | Mitigating Factors |
| --- | --- |
| There is an inherent risk with any large restructuring or integration programme in managing the complexities associated with further integrating our business, and reducing overlapping activities in order to develop a leaner and more streamlined operating model.<br><br>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.<br><br>This risk has heightened due to the pandemic, as the Group has had to undertake structural solutions that go beyond the regular standardization and harmonization processes. | |

**3. CORPORATE SOCIAL RESPONSIBILITY**

| Nature of Risk | Mitigating Factors |
| --- | --- |
| 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 transformation in the tourism sector.<br><br>Our focus is to reduce the environmental impact of our operations 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.<br><br>There is a risk that we are not successful in driving 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.<br><br>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 and reduction in demand for our products and services. | • Developed and launched in 2015 the 'Better Holidays, Better World' 2020 sustainability strategy which includes specific targets for key sustainability indicators.<br>• Established a dedicated sustainability department to work closely with the business and other stakeholders.<br>• Operating one of the most carbon efficient airlines in Europe with continued investment in new, more efficient aircraft and cruise ships.<br>• Implemented an environmental management system with all TUI airlines having achieved ISO 14001 certification.<br>• Increased measures to influence accommodation suppliers to achieve third-party sustainability certification recognised by the Global Sustainable Tourism Council (GSTC).<br>• TUI Care Foundation expanded to focus on the achievement of it's 2020 target for charitable donations and sustainability projects, with particular emphasis on maximizing the economic benefits of tourism in destinations. |

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| **4. 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.<br><br>This is a dynamic risk due to increased global cyber-crime activity and 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.<br><br>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.<br>• 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.<br>• 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.<br>• Continuous improvement through lessons learned from real or simulated cyber incidents. |
| **5. 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.<br><br>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 the exit from the European Union in 2020.<br>• In addition we continue to lobby relevant UK and EU decision makers to stress the continued importance of a liberalised and deregulated aviation market across Europe to protect consumer choice in both regions. |

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| Nature of Risk | Mitigating Factors |
|---|---|

## Monitored Principal Risks

### A. DESTINATION DISRUPTION

**Nature of Risk**

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 the ongoing COVID-19-pandemic; political volatility as has been seen in Egypt, Turkey 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.

This risk has heightened due to COVID-19 whereby the Group is experiencing more destination disruption due to constant changes in travel advice and corridors.

**Mitigating Factors**

- 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, as demonstrated this year in March 2020 when all customers had to be repatriated due to COVID-19.
- 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.

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| Nature of Risk | Mitigating Factors |
|---|---|
| **B. TALENT & LEADERSHIP DEVELOPMENT** | |
| Our success depends on the ability to attract, retain and develop our talent to ensure that we equip our employees to deliver our strategy as well as to also become our future leaders.<br><br>There is a risk that we are unable to attract and retain key talent, build future leadership capability and maintain the commitment and trust of our employees.<br><br>Challenges in managing and maintaining our talent pipeline in order to deliver against our strategy, drive competitiveness and maximize on our operating performance, may impact on our ability to future proof the Group and the associated potential for negative impact on shareholder confidence.<br><br>Due to the pandemic this risk has increased this year as a result of the cost saving measures related to our employees. | • Driving high performance and engagement through our performance review, development plans and career planning process.<br>• Building our pipeline of leadership talent including through our International Graduate Leadership Programme which attracts, develops and retains high quality graduates to become our future senior Commercial Leaders.<br>• Establishing and maintaining online professional academies to provide our employees with learning offerings in specific functional areas.<br>• A strategically aligned leadership programme for high performing management at all levels. |
| **C. CUSTOMER DEMAND** | |
| Spending on travel and tourism is discretionary and price sensitive as well as competitive. The economic outlook remains uncertain with different markets at different points in the economic cycle. Furthermore, 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.<br><br>There is the risk that these external factors within our industry will impact on the spending power as well as the desire to travel of our customers. This could impact our short-term growth rates and lead to margin erosion.<br><br>This risk has heightened due to customer demand being significantly impacted by the pandemic. | • Our market position as a globally operating tourism group, our brand and our integrated business model enables us to respond robustly to competitive threats.<br>• The Group is characterised by the continuous development of new holiday experiences, developing new concepts and services which match the needs and preferences of our customers. Our strong and lasting relationships with our key hotel partners further reinforces our ability to develop new concepts exclusive to the Group.<br>• Many customers prioritize their spending on holidays above other discretionary items.<br>• Leveraging our scale to keep costs down and prices competitive.<br>• Having a range of markets so that we are not over exposed to one particular economic cycle.<br>• Promoting the benefits of travelling with a globally operating tour operator to increase customer confidence and peace of mind. |

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| **D. INPUT COST VOLATILITY** | |
| A significant proportion of operating expenses are in non-local currency and / or relate to aircraft and cruise fuel which therefore exposes the business to fluctuations in both exchange rates and fuel prices.<br><br>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. As a result of the pandemic there is also a risk that there will be no lines available to put in place hedges to manage the volatility of future seasons.<br><br>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.<br><br>Furthermore, changes in macroeconomic conditions, such as those currently being experienced as a result of the pandemic can have an impact on exchange rates which, particularly for the £ / € rate has a direct impact on the translation of non-euro market results into euros, the reporting currency of our Group. | • An established Hedging Committee that monitors the Group's hedging position.<br>• Ensuring that the appropriate derivative financial instruments are used to provide hedging cover for the underlying transactions involving fuel and foreign currency.<br>• 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.<br>• Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies.<br>• 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.<br><br>Further information on currency and fuel hedges can be found in the Notes to the consolidated financial statements in the Financial instruments section. |
| **E. CASH FLOW 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.<br><br>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.<br><br>Due to the COVID-19-pandemic the Group has experienced increasing challenges to the cashflow profile. This is due to operational activity being significantly reduced during the summer months, which is the time when the majority of cash balances are received from customers. We are also experiencing a significantly shorter booking profile whereby customers are booking very close to departure and therefore cash deposits are received later than previous booking patterns. | • The Executive Board has further intensified their review of the Group's cash flow position during this crisis period.<br>• Due to the travel restrictions triggered by the COVID-19-pandemic, the TUI Group had a liquidity requirement in financial year 2020 that was significantly higher than the cash inflows resulting from current operations and the existing unused credit lines. In order to close these liquidity gaps, additional credit lines totaling € 2.85 bn were granted in addition to the cost-cutting and payment deferral measures initiated within the Group and regional support measures in various countries. In order to continue to have sufficient financial resources even in the absence of an increase in new travel bookings and the associated advance payments, TUI has agreed a third financing package with Economic Stabilization Fund, KfW, TUIs anchor shareholder and further financing partners.<br>• 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. |

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| | • 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.<br>• 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 continue to maintain high-quality relationships with the Group's key financiers. Some of the Group's credit lines are subject to compliance with certain financial targets (covenants). The review of these covenants is suspended until September 2021. Testing will be based on the four most recent reported quarters prior to September 2021. We expect our results for these quarters to continue to be impacted by the COVID-19-pandemic. As a result, we may not meet our financial targets. We therefore aim to suspend the covenants ('covenant holiday') for the test period ending on 30 September 2021 and beyond.<br>• Regularly reviewing ways how we can raise additional finance from the capital markets, should it be required, and how we can continue to improve our Free Cash Flow position. Please refer to the Viability Statement on page 47 for further details on the measures taken this year. |
| **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.<br><br>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.<br>• Regular reporting in different bodies (Group Executive Committee, Audit Committee, Group Works Council) in order to guarantee appropriate monitoring, supervision and implementation of action plans and to strengthen the Integrity & Compliance culture across the Group.<br>• Embedded legal and tax expertise in all major businesses responsible for maintaining high quality relationships with the relevant regulators and authorities.<br>• Ongoing implementation and review of Compliance Management System conducted by the Group Integrity & Compliance department to monitor compliance with regulations and provide expert advice to local teams on specific compliance areas. |
| **G. HEALTH & SAFETY** | |
| For all providers of holiday and travel services, ensuring the health and safety of customers is of paramount importance.<br><br>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. | • An established Security Health & Safety function across the Group in order to ensure there is appropriate focus on health and safety processes as part of the normal course of business.<br>• The function ensures standardization as well as compliance with best practice standards.<br>• Appropriate insurance policies are in place for when incidents do occur. |

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| **H. SUPPLIER RELIANCE** | |
| Providers of holiday and travel services are exposed to the inherent risk of failure in their key suppliers, particularly for hotels, aircraft and cruise ships. This is heightened by the industry convention of paying hoteliers in advance ('prepayments') to secure a level of room allocation for the season as well as in areas where a single supplier is used to provide a product or service.<br><br>There is the risk that we are unable to continue with our core operations in the event of a major service failure from our key suppliers. This is more apparent during the pandemic, whereby suppliers are also experiencing limited operational activity. | • Using reputable and financially stable suppliers, particularly in areas where a single supplier is used to provide a service.<br>• Regular monitoring of supplier performance against agreed terms and conditions.<br>• Strong working relationships with all key suppliers.<br>• Owned and joint venture partner hotels form a substantial part of our program which reduces our inherent risk in this area.<br>• A robust prepayment authorization 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.<br>• 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, to gain access to their expertise of the local market as well as to strengthen the balance sheet position in line with our less capital intensive "asset-right" strategy (e.g. Hapag-Lloyd transaction with TUI Cruises). There are three significant joint ventures within the Group – Riu, TUI Cruises and Sunwing.<br><br>*For details on our strategy please refer to page 23.*<br><br>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. |

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## Viability Statement

In accordance with Rule 31 of the UK Corporate Governance Code, the Executive Board assesses the Company's future prospects for a period exceeding the twelve months required by the going concern premise. The Executive Board reviews the business development annually and on a rolling basis based on a three-year strategic plan. The current three-year plan was adopted in October 2020 and covers the period until 30 September 2023. A three-year horizon is considered appropriate for a fast moving competitive environment such as tourism.

In the 2020 financial year, the travel restrictions triggered by the COVID-19-pandemic had a highly negative impact on the Group's earnings and liquidity performance from the end of the second quarter onwards. This initially forced the TUI Group to discontinue its entire travel programme. Despite a certain resumption of business from May 2020, the travel business was subject to permanent restrictions, in particular due to different and changing travel restrictions in source markets and destinations. Due to increasing COVID-19 infection figures, these travel restrictions were again extended to almost all destinations relevant for the TUI Group in autumn 2020.

Due to the reasons described above, the TUI Group had a liquidity requirement in financial year 2020 that was significantly higher than the cash inflows resulting from current operations and the existing unused credit lines despite the initiated savings measures. In order to close these liquidity gaps, additional credit lines totaling € 2.85 bn were granted in addition to the cost-cutting and payment deferral measures initiated within the Group and regional support measures in various countries. These additional credit lines were made available via KfW Bank using the existing revolving credit lines of € 1.8 bn and € 1.05 bn as part of two stabilization packages with the support of the German government. In addition, the Economic Stabilization Fund (WSF) subscribed to a warrant bond in the amount of € 150 m in October 2020. The financing commitments of € 1.8 bn available as of 30 September 2020 were fully utilized as of the balance sheet date.

The TUI Group is currently still affected by the negative financial impact of the COVID-19-pandemic. At the time of publication of this report (10 December 2020) it is not foreseeable when these travel restrictions will be lifted again and when we will be able to resume our travel programme in full. In particular, it is not possible at this point in time to reliably predict how quickly a nationwide vaccination against the corona virus can be carried out and when drugs will be available for the treatment of COVID-19 disease. Also a change in booking behavior cannot be excluded at this time.

Taking into account the financing lines still available and the low expected cash inflows in the winter season 2020 / 21 due to the pandemic, there is a risk that the TUI Group will probably no longer have sufficient financial resources to continue its business operations without further support measures or the sale of non-current assets in the short term if there is no increase in new travel bookings and the associated customer advance payments in the first calendar quarter 2021. Overall, there is a risk that the TUI Group will not be able to continue its business operations without further external support measures and to realize its assets and service its liabilities in the normal course of business.

In order to continue to have sufficient financial resources even in the absence of an increase in new travel bookings and the associated advance payments, TUI has agreed a further financing package of € 1.8 bn with Unifirm Ltd, a banking consortium, KfW and the Economic Stabilization Fund (WSF). A corresponding termsheet was signed on 2 December 2020. The corresponding contracts for the individual components of the term sheet had not yet been signed at the time of publication of this report. The continuation of the company's operations is therefore particularly dependent on TUI's ability to successfully implement the measures introduced in the financing package.

The financing package is described in detail in the chapter Going Concern Reporting in accordance with the UK Corporate Governance Code in the Notes.

*See chapter Going Concern Reporting in accordance with the UK Corporate Governance Code, page 151.*

These measures initiated to strengthen liquidity depend in particular on the approval of the Extraordinary General Meeting and the approval of these measures by the EU. The Executive Board of TUI AG assumes that all necessary approvals and authorizations will be granted and that the planned financing measures can be implemented in good time.

We also assume that we will not be able to meet the financial targets as of 30 September 2021 from the existing and increased RCF. TUI's solvency is therefore at risk if a further suspension of compliance with the covenants for the test period ending on 30 September 2021 and beyond is not achieved. In addition, the KfW loans (both tranches) and the initial Revolving Credit Facility in the total amount of € 4.6 bn must be refinanced in the financial year 2022. Due to the uncertainty regarding future business development, there is a risk that refinancing on the banking and capital markets may not be possible and that further government support measures may be necessary.

The Executive Board believes that the successful implementation of the measures described above is likely to be possible. Due to the dependence of the TUI Group's solvency on the additional financing measures, the fact that certain conditions still have to be met for the successful implementation of the financing measures, risks with regard to the refinancing of the external loans as well as the uncertainty regarding the future development due to the COVID-19-pandemic, there are significant doubts about the TUI Group's ability to continue its business operations. Insofar, this is a significant uncertainty regarding the continuation of the Group's business activities.

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The Executive Board has made a well-founded assessment of the main risks to the Group, taking into account future events that would jeopardize the business model, future results, solvency or liquidity. A sensitivity analysis is used to determine the potential impact of the main risks, whereby they may occur individually or collectively. The scenario used for the going concern assumption assumes that the various Group divisions can successively resume their programmes during the course of the calendar year 2021. While business activity is expected to be severely restricted in the first and second quarters, travel activity is expected to pick up in the summer of financial year 2021 without reaching the pre-crisis level of financial year 2019. In particular, it is difficult to predict when travel activity will resume in financial year 2021.

Taking into account the current situation of the Group, the main risks and the above-mentioned sensitivity analysis, the Executive Board has a reasonable expectation that the Group will be able to continue operations and meet the obligations arising within the three-year period under review.

## Key features of the internal control and risk management system in relation to the (Group) accounting process (sections 289 (4) and 315 (4) of the German Commercial Code HGB)

### 1. DEFINITION AND ELEMENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN THE TUI GROUP

The TUI Group's internal control system comprises all the principles, processes and measures that are applied to secure effective, efficient and accurate accounting which is compliant with the necessary legal requirements.

The internationally recognised framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission) forms the conceptual basis for TUI Group's internal control system, consisting of internal controls and the internal monitoring system. The Executive Board of TUI AG, in exercising its function of managing business operations, has entrusted responsibility for the internal control system in the TUI Group to specific Group functions.

The elements of the internal monitoring system in the TUI Group comprise both measures integrated into processes and measures performed independently. Besides manual process controls, e.g. the 'four-eyes principle', another key element of the process-related measures are automated IT process controls. Process-related monitoring is also secured by bodies such as the Risk Oversight Committee of TUI AG and by specific Group functions.

The Supervisory Board of TUI AG, in particular its Audit Committee, as well as the Group Auditing department at TUI AG are incorporated into the TUI Group's internal monitoring system through their audit activities performed independently from business processes. On the basis of section 107 (3) of the German Stock Corporation Act, the Audit Committee of TUI AG deals primarily with the auditing of the annual financial statements, monitoring the accounting process and the effectiveness of the internal control and risk management system. In the Audit Committee Report the reliability of the financial reporting and the monitoring of the financial accounting process as well as the effectiveness of the internal control and risk management system are described.

*Audit Committee Report see from page 22.*

The Group's auditors have oversight of the TUI Group's control environment. The audit of the consolidated financial statements by the Group auditor and the audit of the individual financial statements of Group companies included in the consolidated financial statements, in particular, constitute a key non-process-related monitoring measure with regard to Group accounting.

In relation to Group accounting, the risk management system, introduced as an Enterprise Risk Management System (ERM System) as a component of the internal control system, also addresses the risk of misstatements in Group bookkeeping and external reporting. Apart from operational risk management, which includes the transfer of risks to insurance companies by creating cover for damage and liability risks and also hedging transactions to limit foreign currency and fuel price risks, the TUI Group's risk management system embraces the systematic early detection, management and monitoring of risks across the Group. A more detailed explanation of the risk management system is provided in the section on the Risk Governance Framework in the Risk Report.

### 2. USE OF IT SYSTEMS

Bookkeeping transactions are captured in the individual financial statements of TUI AG and of the subsidiaries of TUI AG, through local accounting systems such as SAP or Oracle. As part of the process of preparing their individual financial statements, subsidiaries complete standardized reporting packages in the Group's Oracle Hyperion Financial Management 11.1.2.4 (HFM) reporting system. HFM is used as the uniform reporting and consolidation system throughout the Group so that no additional interfaces exist for the preparation of the consolidated financial statements.

Nearly all consolidation processes used to prepare the consolidated financial statements of TUI AG, e.g. capital consolidation, assets and liabilities consolidation and expenses and income elimination including at equity measurement, are generated and fully documented in HFM. Virtually all elements of TUI AG's consolidated financial statements, including the disclosures in the Notes, are developed from and validated by the HFM consolidation system. HFM also provides various modules for evaluation purposes in order to prepare complementary information to explain TUI AG's consolidated financial statements.

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The HFM reporting and consolidation system has an in-built workflow process whereby when businesses promote their data within the system, to signal that their reporting package is complete, they are then locked out from making any further changes to that data. This ensures data integrity within the system and also facilitates a strong audit trail enabling changes to a reporting package to be identified. This feature of the HFM system has been checked and validated by the TUI AG Group Audit department on several occasions since the system was introduced.

At their own discretion, TUI AG's Group auditors select certain individual financial statements from the financial statements entered in the HFM reporting and consolidation system by the Group companies, which are then reviewed for the purposes of auditing the consolidated financial statements.

### 3. SPECIFIC RISKS RELATED TO (GROUP) ACCOUNTING

Specific risks related to (Group) accounting may arise, for example, from unusual or complex business transactions, in particular at critical times towards the end of the financial year. Business transactions not routinely processed also entail special risks. The discretion necessarily granted to employees for the recognition and measurement of assets and liabilities may result in further (Group) accounting-related risks. The outsourcing and transfer of accounting-specific tasks to service companies may also give rise to specific risks. Accounting-related risks from derivative financial instruments are outlined in the Notes to the consolidated financial statements.

### 4. KEY REGULATION AND CONTROL ACTIVITIES TO ENSURE PROPER AND RELIABLE (GROUP) ACCOUNTING

The internal control measures aimed at securing proper and reliable (Group) accounting ensure that business transactions are fully recorded in a timely manner in accordance with legal requirements and the Articles of Association. This also ensures that assets and liabilities are properly recognised, measured and presented in the financial statements and the consolidated financial statements. The control operations also ensure that bookkeeping records provide reliable and comprehensive information.

Controls implemented to secure proper and reliable accounting include, for instance, analysis of facts and developments on the basis of specific indicators. Separation of administrative, execution, settlement and authorisation functions and the implementation of these functions by different persons reduces the potential for fraudulent operations. Organisational measures also aim to capture any corporate or Group-wide restructuring or changes in sector business operations rapidly and appropriately in (Group) accounting. They also ensure, for instance, that bookkeeping transactions are correctly recognised in the period in which they occur in the event of changes in the IT systems used by the accounting departments of Group companies. The internal control system likewise ensures that changes in the TUI Group's economic or legal environment are mapped and that new or amended accounting standards are correctly applied.

The TUI Group's accounting policies together with the International Financial Reporting Standards (IFRS) in compliance with EU legislation, govern the uniform accounting and measurement principles for the German and foreign companies included in TUI's consolidated financial statements. They include general accounting principles and methods, policies concerning the statement of financial position, income statement, notes, management report and cash flow statement.

The TUI Group's accounting policies also govern specific formal requirements for the consolidated financial statements. Besides defining the group of consolidated companies, they include detailed guidance on the reporting of financial information by those companies via the group reporting system HFM on a monthly, quarterly and year end basis. TUI's accounting policies also include, for instance, specific instructions on the initiating, reconciling, accounting for and settlement of transactions between group companies or determination of the fair value of certain assets, especially goodwill. At Group level, specific controls to ensure proper and reliable (Group) accounting include the analysis and, where necessary, correction of the individual financial statements submitted by the Group companies, taking account of the reports prepared by the auditors and meetings to discuss the financial statements which involve both the auditors and local management. Any further content that requires adjusting can be isolated and processed downstream. The control mechanisms already established in the HFM consolidation system minimize the risk of processing erroneous financial statements. Certain parameters are determined at Group level and have to be applied by Group companies. This includes parameters applicable to the measurement of pension provisions or other provisions and the interest rates to be applied when cash flow models are used to calculate the fair value of certain assets. The central implementation of impairment tests for goodwill recognised in the financial statements secures the application of uniform and standardized evaluation criteria.

### 5. DISCLAIMER

With the organisational, control and monitoring structures established by the TUI Group, the internal control and risk management system enables company-specific facts to be captured, processed and recognised in full and properly presented in the Group's accounts.

However, it lies in the very nature of the matter that discretionary decision-making, faulty checks, criminal acts and other circumstances, in particular, cannot be ruled out and will restrict the efficiency and reliability of the internal control and risk management systems, so that even Group-wide application of the systems cannot guarantee with absolute certainty the accurate, complete and timely recording of facts in the Group's accounts.

Any statements made relate exclusively to TUI AG and to subsidiaries according to IFRS 10 included in TUI AG's consolidated financial statements.