TUI GROUP

Half-Year Financial Report 1 Oct. 2019 – 31 March 2020

- COVID-19 is the greatest crisis the tourism industry and TUI has ever faced.
- Group Underlying EBIT for the five months to February delivered a strong result, up €62m[1] versus prior year excluding one-offs, driven by Markets & Airlines
- H1 Group Underlying EBIT down €512m[1] on prior year as a result of loss of contribution and costs arising from COVID-19 shutdown as well as costs from Boeing 737 Max grounding
- €1.8bn German State Aid bridge loan confirmed on 27 March to increase the existing credit agreement due to the pandemic
- FY20 guidance withdrawn on 15 March 2020 based on the current unpredictable situation
- Global transformation to be accelerated
- TUI is a resilient business and will be stronger, much leaner and more flexible post COVID-19

[1] at constant currency rates

TUI Group - financial highlights

		Q2 2020	Q2 2019 adjusted	Var. %	H1 2020	H1 2019 adjusted	Var. %	Var. % at constant currency
Turnover		**2,787.9**	**3,101.6**	- 10.1	**6,638.7**	**6,676.4**	- 0.6	- 1.3
Underlying EBIT (IAS 17)[1]								
Hotels & Resorts		- 1.2	65.3	n. a.	42.1	134.5	- 68.7	- 56.1
Cruises		- 22.4	59.4	n. a.	26.5	106.4	- 75.1	- 77.1
Destination Experiences		- 20.3	- 5.6	- 262.5	- 29.4	- 10.4	- 183.8	- 187.0
Holiday Experiences		- 44.0	119.1	n. a.	39.1	230.5	- 83.0	- 76.8
Northern Region		- 313.5	- 121.1	- 158.9	- 424.8	- 183.9	- 131.0	- 130.0
Central Region		- 152.1	- 86.9	- 75.1	- 183.5	- 119.6	- 53.5	- 53.6
Western Region		- 131.0	- 92.1	- 42.1	- 194.6	- 152.6	- 27.5	- 27.8
Markets & Airlines		- 596.5	- 300.1	- 98.7	- 802.9	- 456.1	- 76.0	- 75.8
All other segments		- 40.4	- 37.4	- 7.9	- 64.9	- 76.0	+ 14.6	+ 14.1
TUI Group[1]		**- 680.9**	**- 218.5**	**- 211.7**	**- 828.7**	**- 301.6**	**- 174.8**	**- 169.7**
Underlying EBITDA (IAS 17)[2]		**- 539.5**	**- 105.7**	**- 410.4**	**- 559.4**	**-78.5**	**- 612.4**	
Underlying EBIT (IFRS 16)		**- 680.1**	**- 218.5**	**- 211.3**	**- 826.8**	**-301.6**	**- 174.2**	
EBIT (IFRS 16)[1]		**- 700.2**	**- 242.1**	**- 189.2**	**- 778.0**	**-348.1**	**- 123.5**	
Underlying EBITDA (IFRS 16)		**- 409.6**	**- 105.7**	**- 287.5**	**- 298.1**	**-78.5**	**- 279.6**	
EBITDA (IFRS 16)[2]		**- 418.7**	**- 120.0**	**- 248.8**	**- 228.9**	**- 107.7**	**- 112.6**	
Group loss		- 740.5	- 176.9	- 318.5	- 845.8	- 289.1	- 192.6	
Earnings per share	€	- 1.30	- 0.35	- 271.4	- 1.51	- 0.58	- 160.3	
Net capex and investment		- 226.5	- 356.6	+ 36.5	- 287.2	- 651.4	+ 55.9	
Equity ratio (31 March)[3]	%				15.6	21.2	- 5.6	
Net financial position (31 March)					- 4,902.5	- 1,964.1	- 149.6	
Employees (31 March)					53,525	60,135	- 11.0	

Differences may occur due to rounding.

This Half-Year Financial Report of the TUI Group was prepared for the reporting period H1 FY20 from 1 October 2019 to 31 March 2020.

TUI Group applied IFRS 16 from 1 October 2019. Prior year figures were not adjusted.

In the current financial year, underlying EBIT is also adjusted for the earnings effect of IFRS 16 ('underlying EBIT (IAS 17)') as part of internal reporting in order to facilitate year-on-year comparability. Accordingly, adjusted EBIT (IAS 17) represents the Group performance measure within the meaning of IFRS 8.

Since the beginning of this financial year, the items of the profit and loss statement of the aircraft leasing companies holding the TUI Group's aircraft and subletting them within the Group have been fully allocated to the airlines using the respective aircraft (Northern Region, Central Region and Western Region). In the first half of the previous year, the aircraft leasing companies were fully included in All other segments, while in the 2019 Annual Report, the result from intra-Group subleasing was already allocated to the respective airlines (Northern Region, Central Region and Western Region). The prior-year figures have been adjusted accordingly.

[1] We define the EBIT in underlying EBIT as earnings before interest, income taxes and result of the measurement of the Group's interest hedges. For further details please see page 15.

[2] EBITDA is defined as earnings before interest, income taxes, goodwill impairment and amortisation and write-downs of other intangible assets, depreciation and write-downs of property, plant and equipment, investments and current assets.

[3] Equity divided by balance sheet total in %, variance is given in percentage points.

INTERIM MANAGEMENT REPORT

H1 FY20 Summary

- The first half of the 2020 financial year has been marked by two developments – the first five months saw an exceptional start to our Summer 2020 programme, with January 2020 being the best ever bookings month in the company's history. The final month of the second quarter saw an unprecedented global travel suspension as COVID-19 escalated into a pandemic.
- The impact on our programme and operations has been undeniably acute. For the first time ever in the company's history, our full programme was suspended and alongside many other corporates across the sector State Aid was applied for. As a result of our swift action, TUI was the first business in Germany to receive state support in these exceptional times.
- First five months (5M) underlying EBIT loss of €343m[1] was up €62m versus prior year excluding digital platforms operational investment, Boeing 737 Max and effect of a one-off hedging gain, reflecting the strong operational result and start to the year.
- H1 Group underlying EBIT loss of €813m[1] was down €512m[1] on prior year as a result of lost contribution in March and costs arising from COVID-19 shutdown, most notably from ineffective hedges, and additionally replacement lease costs relating to the Boeing 737 Max. Total costs in March incurred relating to both COVID-19 measures and Max amounted to €470m.
- The tourism industry has weathered a number of macroeconomic shocks throughout the most recent decades, however the COVID-19 pandemic is unquestionably the greatest crisis the industry and TUI has ever faced.

[1] Underlying EBIT (IAS 17), at constant currency rates

H1 results at a glance (pro-forma IAS17 basis)

	€ million
Underlying EBIT 5M FY19	**- 302**
5M YTD	
Holiday Experiences	- 20
Markets & Airlines	+ 69
All other segments	+ 13
Underlying EBIT 5M YTD FY20 at constant currency excluding special items	**- 240**
Special items:	
Current year: Digital platform opex	- 8
Markets & Airlines Prior year: Hedging gain (Northern Region)	- 29
Markets & Airlines Current year: Boeing 737 Max grounding	- 66
Underlying EBIT 5M YTD FY20 at constant currency	**- 343**
March 2020:	
Special items:	
Loss of contribution	- 242
Net hedging ineffectiveness	- 146
Repatriation costs	- 29
Compensation costs	- 14
Marella Celebration impairment	- 19
Net Boeing 737 Max costs	- 6
Other (COVID-19 related)	- 14
Underlying EBIT H1 FY20 at constant currency	**- 813**
Foreign exchange translation	- 16
Underlying EBIT H1 YTD FY20 at actual rates	**- 829**
IFRS 16 impact	+ 2
Underlying EBIT H1 FY20 at actual rates (IFRS 16 basis)	**- 827**

COVID-19 development

- At our Q1 update on 11 February 2020, there was neither a worldwide travel ban on the horizon nor any indication that the world, and particularly the tourism industry, would come to a standstill. The outbreak in China at the end of December and during the course of January had little to no impact on our key markets. Looking back on previous epidemics, any consumer impact had been very much contained in and limited to the source region of the outbreak.
- The outbreak in Italy on 21 February was however followed by an incidence of COVID-19 at one of our partnership hotels in Tenerife. By the beginning of March, we were experiencing lower travel demand, however our year to date bookings remained well above prior year. The further spread of COVID-19 in the following days led to the decision to trigger Force Majeure notices to all third party hotelier partners, enabling either a cancellation or reduction of committed capacity contracts for the remainder of the season.
- By the middle of March a number of governments across our key destinations, such as Spain, Mexico and Greece were advising that they would be closing borders as part of their efforts to mitigate the spread of COVID-19. As a result, on 15 March, we announced the suspension of the vast majority of our travel programme until further notice. All financial guidance for FY20 was withdrawn at this point.

Financial and operational measures as a result of travel suspension

Application for and granting of German State Aid

- In light of the suspension of operations, it was clear the company would require additional liquidity headroom to help bridge the effects of the pandemic until Summer 2020. TUI applied for State Aid from the German Federal Government on 17 March. Ten days later, on 27 March TUI received a commitment from the German Federal Government for a KfW bridge loan for the amount of €1.8 billion. The €1.8 billion support came in the form of an extension to the pre-existing €1.75bn Revolving Credit Facility (RCF) and was ratified by the existing RCF banking consortium on 8 April.
- Under the terms of the loan, the annual dividend will be suspended during the course of the credit line. Both covenants, net leverage and net fixed charge cover, relating to the existing and increased RCF will be suspended for the next 18 months. Covenant testing will resume in September 2021.

The largest ever repatriation campaign by TUI

- From mid-March, customer service, aviation planning and crisis management teams, alongside in-destination colleagues and flight crew, worked tirelessly round the clock to coordinate the return of customers and colleagues. Over 200,000 customers plus ~4,000 colleagues were returned to home countries in the weeks that followed. Additionally, at the request of various foreign ministries, the teams worked hard to also repatriate many non-TUI passengers on rescue flights, who would have otherwise been stranded.

Significant fixed cost base actions

- Whilst our programme is suspended, significant crisis measures have been taken across the business to reduce cash costs and expenditure to an absolute minimum. From capex, to marketing, to rental and leases, all expenditure has been cut or paused. Strict cost discipline, required during these exceptional circumstances, has been a top priority for the business as a whole.
- The largest cost base for the Group is accommodation and having invoked the Force Majeure clause on all hotel contracts, our overall monthly cash cost base has been substantially reduced by more than 70%. Incremental aircraft leases are being renegotiated with our lessors, as have our rental lease agreements with landlords in our Hotels & Resorts business. Cruise ships have been laid up, saving around ~50% of monthly costs.

- The business took the difficult but necessary decision to reduce staff costs worldwide from April onwards. Short-time work, pay-cuts, furlough, unpaid leave or other staff costs saving measures were applied across the Group, whilst our business is paused. We have participated in government job retention schemes where available, such as in Germany and the UK. These substantial measures across the business have helped to deliver a ~50% cost saving in May, with ~90% of our employees participating in the above measures.
- Due the nature of our advance contracting to secure committed capacity, accommodation and services for the seasons ahead, TUI would typically see a high level of operational leverage. In a normal year c. 63% of our cash costs across the business are deemed to fixed. This equates to a cash outflow range of between ~€700m to ~€1,400m per month, the latter during our peak season.
- As detailed above, the exceptional shutdown imposed has enabled significant cost reductions during this incomparable crisis period. Having reduced cash costs by more than 70% to an absolute crisis minimum, we expect for the remainder of the financial year a fixed cost cash outflow range of between ~€250m to ~€300m per month.

Bookings and refund mechanisms

[1] These statistics are up to 3 May 2020, shown on a constant currency basis and relate to all customers whether risk or non-risk

- Since the beginning of the measures to mitigate COVID-19, we have seen a material decline in bookings for Summer 2020 as a result of the travel suspension currently in place. We see bookings for Summer 2020 down 36%[1], with ASP up 11% and 35%[1] of the programme sold to date, down from 59% sold at the same point last year reflecting our cancelled programme from mid-March.
- The Markets and Airlines programme across the three regions are on average suspended until middle of June with our Cruise brands on average suspended similarly. Under the European Travel Directive, cash refunds should be provided for holidays cancelled. Many of our source market governments are however considering voucher refund mechanisms or state backed fund solutions as alternatives to cash refunds and subsequently we expect a low to mid-single digit hundred millions per month cash outflow to cover customer refunds relating to cancelled holidays. We see typically, a higher proportion of customers requesting refunds for immediate departures and customers with outer dates, choosing a voucher refund credit or rebooking to a later departure date. Customers who do not wish to take advantage of our vouchers/refund credits with a discount for future booking, remain entitled to a cash refund should their holiday be cancelled.
- Holidays remain a high priority for our customers and we see our customers committing early for future seasons. Winter 2020/21 is still very early in the booking cycle however UK bookings are up 8%[1] with ASP in line with prior year. Summer 21 bookings are looking positive on small volumes.

Liquidity position and measures

With cash and available facilities as well as a number of liquidity enhancing measures, TUI has sufficient funds to cover the coming months. As at 10 May, TUI AG's total cash and available facilities amounted to €2.1bn.

TUI continues to evaluate a variety of options with the aim to best position TUI's balance sheet and liquidity through an extended period of disruption and post crisis.

Our liquidity enhancing measures:

- Cash cost base reduced to crisis minimum range of between ~€250m to ~€300m per month
- Capex reduction/postponement from range of between ~€750m to ~€900 for FY20 to ~€440m[2]
- Adoption of voucher/refund credit mechanism
- Tax relief
- Closing of Hapag-Lloyd Cruises transaction
- Sale and leaseback of assets
- Immediate working capital normalisation on recovery of bookings/restart of business

[2] pro forma IAS 17 application and pre TUI Cruises' acquisition of Hapag-Lloyd Cruises

The Group is strongly focused on rebuilding its solid balance sheet profile post crisis.

H2 Outlook

TUI has a resilient business model and has shown strong operational performance in recent years. Before the COVID-19 crisis, the business was on track to deliver a strong FY20, despite further costs related to the grounding of the Boeing 737 Max.

The travel industry has proven to be resilient many times, weathering many macroeconomic shocks throughout the recent decades and has been quick to adapt to macro challenges.

We expect travel will be different for the remainder of this year, however we strongly believe our customers will still want to holiday. Online enquiries to our website indicate to us that customers are still actively researching holidays and destinations; customers want to travel as soon as tourism can take off responsibly and safely.

We consider ourselves very well positioned to benefit from a recovery post the COVID-19 crisis. Our vertically integrated model enables a fully coordinated restart of the value chain. TUI's trusted brand, direct customer engagement across the full holiday journey and differentiated products are clear USPs for customer post crisis. TUI's market leading position combined with long-standing relationships with suppliers, retail agents and tour operators, means TUI plays an important and critical role in the restart of the industry.

The foreign tourism ministries from destinations such as Greece, Cyprus, Portugal, the Balearic Islands, Austria, and Bulgaria are preparing intensively for the return of tourists. The health and wellbeing of both customers and colleagues remain paramount and we are assessing how we can responsibly adapt to measures so that leisure travel can resume. We are preparing new procedures for the airport process, on board our aircraft, in hotels and on our ships, so that any social distancing recommendations or guidelines can be implemented, without compromising customer enjoyment and travel experience. TUI, alongside our many destination partners, stands ready for a responsible restart and resumption of our travel programme.

Acceleration of our strategy post COVID-19

It is clear as a result of the COVID-19 crisis, the travel industry will evolve even faster and perhaps more profoundly than many had expected. The world will be different and TUI will be different also.

This evolution will see the launch of our global realignment programme. We are reviewing our activities, every business unit and group companies worldwide to identify synergies and where we can be leaner, faster and more efficient. What is crucial now more than ever is to adapt our structures, and review our investments and presence in both markets and destinations.

To address costs, we will leverage synergies in areas such as hotel purchasing and exploit further potential within our global IT structures. We are targeting to permanently reduce our overhead cost base by 30% across the entire Group. This will have an impact on potentially 8,000 roles globally that will either not be recruited or reduced.

We will be less capital intensive, and we will continue our asset-right strategy in our Hotels & Cruise business which we launched in 2019. We will right-size our airlines and order book, alongside restructuring. We will divest and address non-profitable activities within our business.

Driving digitalisation - we will accelerate our Group transformation into a digital platform business. We will expand accommodation only and seat only products as well as increase dynamic packaging options. For our digital platform within Destination Experiences, we will enhance and prioritise the planned transformation.

TUI is well positioned to adapt to these opportunities. In order to return to the successful development of the past years after the crisis, we will now implement the realignment quickly.

Future TUI will be leaner, less capital intensive and more digital, creating an even stronger and more agile business.

Report on changes in expected development

On 15 March 2020, the Executive Board of TUI AG withdrew its guidance for financial year 2020 in view of the considerable uncertainties in the assessment of future developments.

The effects of the COVID-19 pandemic will have a considerable impact on the development of Group earnings. Cost savings will only partly compensate for the negative effects. We therefore expect Group turnover and underlying EBIT (IAS 17, at constant currency) to decline significantly compared with the previous year.