GOALS AND STRATEGY

Our Strategy

As the world's leading integrated tourism group, we operate in all stages of our customers' holiday experience, from marketing and sales to aviation, destination services and accommodation.

The core of our offering will be our own hotel and cruise brands.

Growth in our hotel and cruise brands is enabled and de-risked by our strength in direct distribution and our direct customer relationships, creating a virtuous circle for sustainable growth.

We have a resilient model, prepared for current and future changes.

The strength of our integrated model is the monitoring and selective control of all stages in the value chain. This allows us to mitigate capacity risks, respond quickly and flexibly to market changes and actively shape overall situations and markets.

We take advantage of global economies of scale resulting from our size and international scope to deliver competitive advantages and have defined six scaling platforms as a framework: TUI Brand, Aviation, Hotels, Cruises, Destination Services, IT.

We use our local strength at crucial points in the competitive arena, to be close to customers and their individual needs.

We believe a clear focus on sustainability differentiates us from the competition and generates value.

We have a common vision and values to achieve our goals.

How we do it – our Business Model

We have a leading position as an integrated tourism company.

MARKETING & SALES

- Scale – over 20 million* customers per annum, over 13 million customers flying on Group airlines
- Strength in direct distribution and direct customer relationships – over 70 % of holidays distributed directly to the customer through our websites, shops and call centres
- Flexibility – approx. 75 % of our source market accommodation requirement sourced from third parties

* Including Canada and Russia joint ventures

AVIATION

- Scale – approx. 150 aircraft, transporting our customers to their destination
- Flexibility – approx. 95 % of aircraft are leased, current average remaining lease life of approx. 4 years, with additional capacity from third party airlines
- Efficiency – OneAviation programme to develop one virtual airline, short haul fleet renewal commences 2018

DESTINATION SERVICES

- Scale – over 11 million customers per annum with operations in over 100 destinations
- Unique destination services bring the TUI brand alive and bring us even closer to our customers

ACCOMMODATION

- Scale – growing portfolio of Group hotels and cruise ships (currently over 7 million customers per annum) with a further 10 million customers staying in third party hotels, which are mostly exclusive to our source markets
- Wide distribution funnel – over 50 % of our hotel customers purchase via our source markets, with significant incremental volumes from other markets
- Flexibility – balanced ownership model, with around half of our hotels being managed or franchised, utilisation of joint venture partnerships to reduce investment risk, and a balanced destination portfolio

Integration benefits our customers and our performance, and gives us a strong competitive advantage.

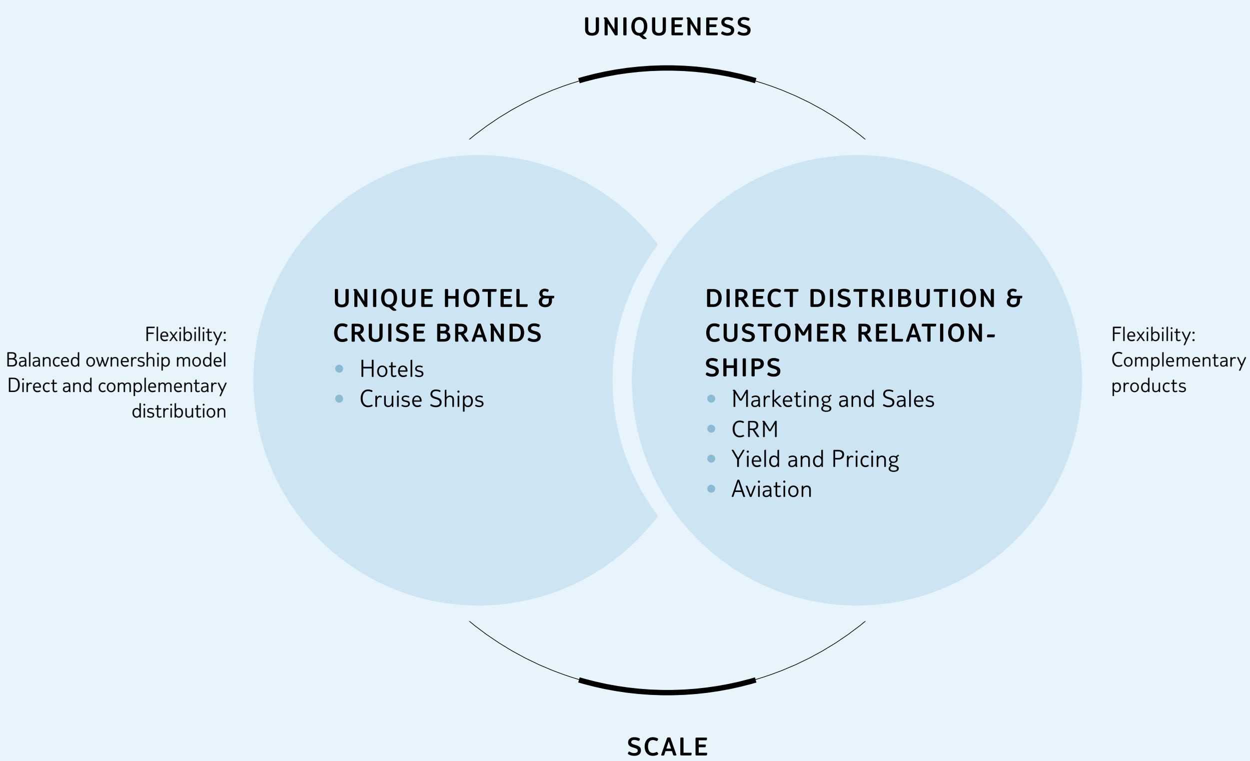
CUSTOMER PERSPECTIVE

- Easy & convenient
- Seamless customer experience
- Unique & exclusive products
- TUI as most trusted travel partner
- Mobile service and inspiration

TUI PERFORMANCE PERSPECTIVE

- Growth in differentiated hotels and cruises enabled and de-risked by direct customer relationship
- Superior occupancy rates, yield management & risk mitigation
- Local freedom to actively shape markets
- Flexibility to respond to changing environment

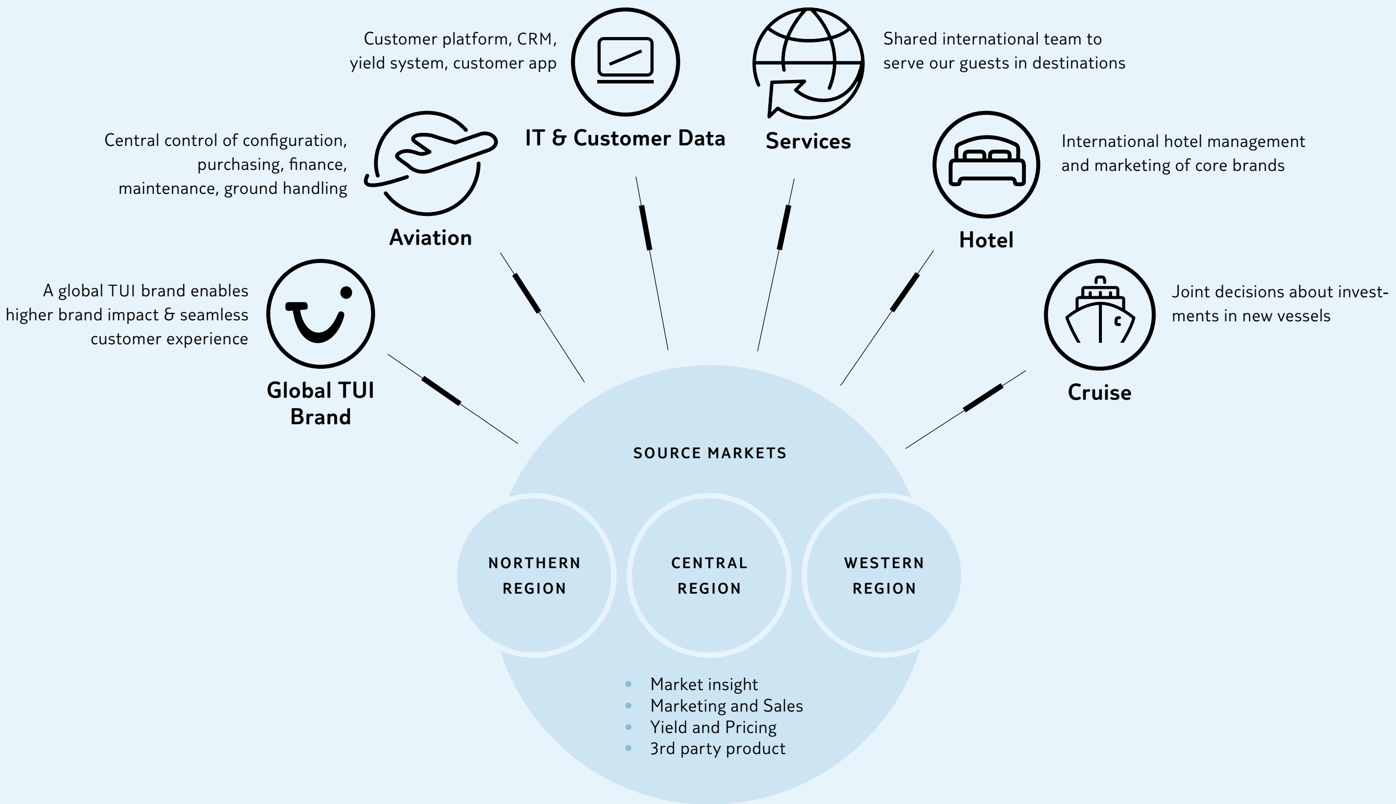
Growth in our hotel and cruise brands is enabled by our strength in direct distribution and by our direct customer relationships, creating a virtuous circle for sustainable growth.



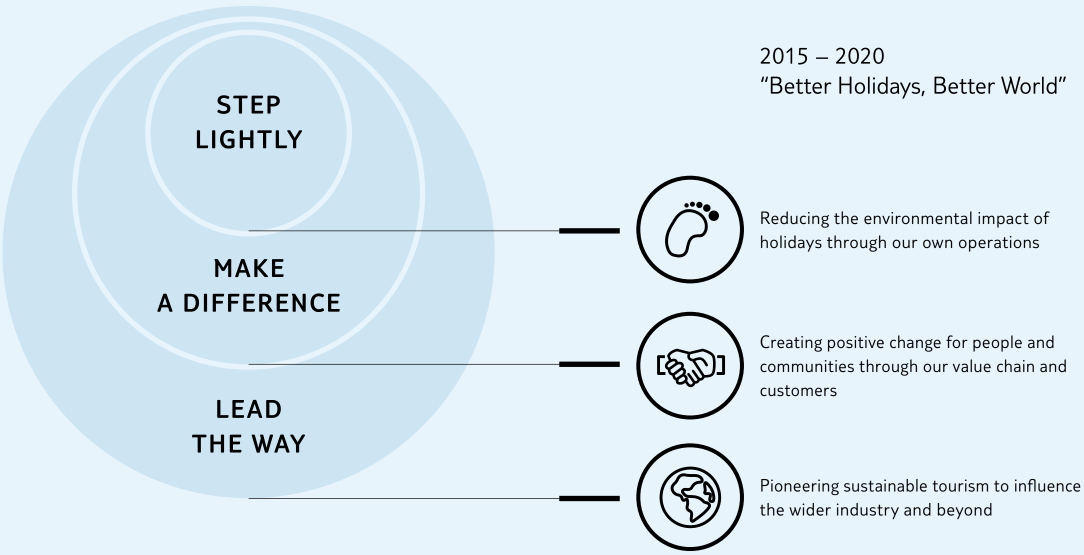
We have a flexible model with a balanced portfolio of businesses, which further enhances our resilience.

- Ability to remix flight and hotel capacity and adapt cruise itineraries
- Balanced source market & destination portfolio
- Strong long-term supplier relationships
- Risk assessed ownership / management model, including joint venture partners

We combine local relevance with global scale.



We believe a clear focus on sustainability differentiates us from the competition and generates value.



The ambitious 2020 sustainability strategy "Better Holidays, Better World" is built around three core pillars to help shape the future of sustainable tourism.

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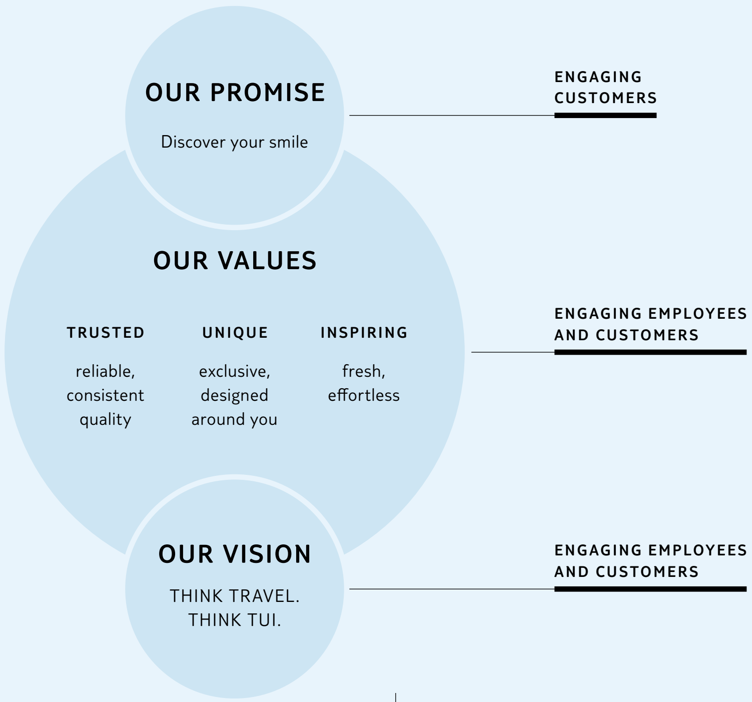
We have a common vision and values to achieve our goals.

Our vision, values and customer proposition form the basis of our action and our attitude – both inside and outside.



Discovering the world's diversity, exploring new horizons, experiencing foreign countries and cultures: travel broadens people's minds. At TUI we create unforgettable moments for customers across the world and make their dreams come true. We are mindful of the importance of travel and tourism for many countries in the world and people living there. We partner with these countries and help shape their future – in a committed and sustainable manner.

What we want to achieve – roadmap for growth

1
GROWTH IN HOTELS AND CRUISE BRANDS

2
DIRECT CUSTOMER RELATIONSHIPS

3
BALANCE SHEET STRENGTH & FLEXIBILITY

1. GROWTH IN HOTEL AND CRUISE BRANDS

Accommodation (hotels and cruise ships) is the key differentiator in the customer holiday experience and the key driver of satisfaction and retention rates. We will therefore deliver growth through scaling up our unique hotel and cruise brands.

Growth will be focused on our core, unique brands – these brands have been selected due to their strong resonance with their respective customer segments (and therefore competitive advantage) and their ability to be further scaled.

Following the merger with TUI Travel PLC in December 2014 we targeted circa 60 additional hotels by 2018 / 19. Having delivered 18 openings and two repositioned hotels to date (30 September 2016), we expect approximately 40 to 45 further openings by the end of 2018 / 19 plus further repositioned hotels. Taking into account the different ownership models and our current portfolio, we expect each new hotel on average to deliver an additional € 2 m underlying EBITA.

RIU

3 to 5 star hotels at the best beach destinations in the world, offering holidays from family all inclusive fun to romance and luxury

CURRENT PORTFOLIO (2015/16)
- 94 hotels delivering € 318 m underlying EBITA
- Occupancy 90 %
- ROIC 26 % (excl. goodwill)

OPENINGS/LAUNCHES
- 2014 / 15: Aruba, Mauritius, Bulgaria, Berlin
- 2015 / 16: Dominican Republic, Sri Lanka, New York, Dublin
- Winter 2016 / 17: Jamaica
- 2017 / 18: Mexico (Costa Mujeres)

TUI BLUE

Premium hotels in first class locations with strong regional influences

CURRENT PORTFOLIO (2015/16)
- TUI Blue launched with two repositioned hotels this year

OPENINGS/LAUNCHES
- 2015 / 16: Turkey (repositioned)
- Winter 2016 / 17: Tenerife (new), Germany and Austria (repositioned)
- Summer 2017: Croatia (new), Italy (new), (repositioned), Germany (repositioned)

ROBINSON

Premium clubs in excellent beach or mountain locations

CURRENT PORTFOLIO (2015/16)
- 24 clubs delivering € 39 m underlying EBITA
- ROIC 13 %

OPENINGS/LAUNCHES
- 2014 / 15: Tunisia
- 2015 / 16: Greece, Turkey
- Summer 2017: South East Asia

TUI MAGIC LIFE

All inclusive club holidays in top beachside locations

CURRENT PORTFOLIO (2015/16)
- 13 clubs

OPENINGS/LAUNCHES
- 2014 / 15: Ibiza, Rhodes

TUI SENSATORI

Modern luxury holidays designed to fuel the senses

CURRENT PORTFOLIO (2015/16)
- 10 resorts with 5 in Group hotels

OPENINGS/LAUNCHES IN GROUP HOTELS
- 2014 / 15: Cyprus, Turkey
- 2015 / 16: Dominican Republic
- Summer 2017: Rhodes

TUI SENSIMAR

Stylish 4 to 5 star hotels designed for adults with space and relaxation in mind

CURRENT PORTFOLIO (2015/16)
- 48 resorts with 20 in Group hotels

OPENINGS/LAUNCHES
- In Group hotels – 2014 / 15: Portugal, Croatia
- In third party hotels – Winter 2016 / 17: Lanzarote, Cape Verde, Mauritius
- In third party hotels – Summer 2017: Sardinia, Greece, Tunisia

TUI FAMILY LIFE

The ultimate environment for a family holiday to remember

CURRENT PORTFOLIO (2015/16)
- 29 resorts with 17 in Group hotels

OPENINGS/LAUNCHES IN THIRD PARTY HOTELS
- Winter 2016/17: Thailand, Spain
- Summer 2017: Sardinia, Croatia, Spain, Bulgaria

THOMSON CRUISES

UK leader in all inclusive fly cruise

CURRENT PORTFOLIO (2015/16)
- Five ships
- Underlying EBITA € 61 m

OPENINGS/LAUNCHES
- Summer 2016: TUI Discovery
- Summer 2017: TUI Discovery 2
- Summer 2018: additional ship from TUI Cruises (Mein Schiff 1)
- Summer 2019: additional ship from TUI Cruises (Mein Schiff 2)

TUI CRUISES

German speaking, premium all inclusive cruises

CURRENT PORTFOLIO (2015/16)
- Five ships
- Share of underlying EAT € 100 m
- ROIC 9 % / ROE 36 %

OPENINGS/LAUNCHES
- Summer 2016: Mein Schiff 5
- Three newbuild ships launched in each of the next three years (2017 to 2019)

HAPAG LLOYD

Luxury and expedition cruises

CURRENT PORTFOLIO (2015/16)
- Four ships
- Underlying EBITA € 30 m

OPENINGS/LAUNCHES
- Two new expedition ships launch in Spring and Autumn 2019

Cruise growth will continue to focus on the underpenetrated European cruise market, with capacity expansion in TUI Cruises and modernisation of our UK and luxury / expedition cruise brands.

- The European cruise market remains underpenetrated relative to the US, but has the right demographics – age, wealth, leisure time available – for future growth

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+3
Mein Schiff newbuilds over the next three years

- TUI Cruises successfully launched Mein Schiff 5 in July 2016 and will add three further newbuilds over the next three years, delivering around € 25 m to € 30 m share of earnings after tax for each new ship.

- Thomson Cruises is continuing its path of modernisation, with the launch of TUI Discovery in Summer 2016 and the delivery of TUI Discovery 2 in Summer 2017. In addition, Mein Schiff 1 and Mein Schiff 2 will move to the UK from the TUI Cruises fleet in 2018 and 2019. We expect each new ship to deliver around € 25 m of underlying EBITA per annum, at constant currency rates.

- Following the successful turnaround of Hapag-Lloyd Cruises to profitability this year, we have announced the modernisation and expansion of the expedition cruise fleet, with two newbuilds arriving in 2019, delivering around € 15 m additional EBITA per annum per ship.

Growth will focus on destinations with strong margin and ROIC characteristics, and where we deliver a competitive advantage.

- Year round destinations deliver higher occupancy, less seasonality in earnings and therefore higher returns.

- Year round destinations also add the opportunity to sell to other source markets outside TUI Group – for example, a significant proportion of Riu's revenues in the Caribbean come from the US.

- We can leverage off our existing strong presence in long haul and other year round destinations – on a hotel basis, over 50 % of our current Hotels & Resorts portfolio is in year round destinations, and around 40 % of our source market customers travel to year round destinations (defined as Canaries, Cape Verde, North Africa and long haul).

- Our 787 fleet enables us to take more customers, more efficiently to long haul destinations. In our source markets in 2015 / 16, around 15 % of our accommodated customers stayed in long haul destinations. We expect our long haul package holiday customers to grow by over 500,000 over the next three years.

We will continue to build on our **direct relationship with the customer in resort.**

Our unique Destination Services bring the TUI brand alive, operating in more than 100 destinations with access to over 11 million customers, managing airport transfers, excursions and resort services. In 2015 / 16 we completed the separation of our Destination Services business from Hotelbeds Group (which has subsequently been sold) and have so far delivered synergies worth € 10 m as a result of service integration and cost efficiency measures. Growth

> 50 %

of our current Hotels & Resorts portfolio is in year round destinations

in Destination Services will be driven by an increase in the proportion of differentiated excursions (currently around 20 %) and in sales of excursions through online and mobile channels. In addition, we are continuing to expand our network, with the launch of a destination management company in the USA in November 2016, and exploring the potential for launches in other countries.

Balanced ownership model for new and existing hotels and cruise ships, with clear investment hurdle rates.

- We have a balanced ownership model for hotels, with just under 50 % of our hotels under management or franchise.
- Investments will be made in differentiating products where there are pockets of growth and scarcity of supply.
- Our strong joint venture relationships bring significant operational benefits for our hotels and cruises, as well as reducing levels of invested capital on a consolidated basis.
- We target ROIC (based on our Group definition) of at least 15 % on average for our new investments (compared with our Group weighted average cost of capital of 7.5 %).

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21.3 %

ROIC Cruises in 2015 / 16

- Our Hotels & Resorts and Cruises segments deliver ROIC significantly in excess of their cost of capital. In 2015 / 16 our Hotels & Resorts segment delivered ROIC of 12.3 % (versus segment weighted average cost of capital of 6.5 %) whilst Cruises delivered ROIC of 21.3 % (versus segment weighted average cost of capital of 7.5 %).

2. DIRECT CUSTOMER RELATIONSHIPS

Growth in our hotel and cruise brands is enabled and de-risked through the strength of our direct distribution and customer relationships, creating a virtuous circle for sustainable growth. This also gives us a competitive advantage compared with other hotel and cruise companies with lower levels of direct distribution.

Capitalising on the strength of the TUI brand on a global scale – One global distribution brand offers significant opportunities in terms of growth potential, consistency of customer experience, digital presence, operational efficiency and competitive strength. In the long run, it is our objective that there will be one distribution brand wherever it is reasonable, but we will still ensure that we maintain our local roots. We launched our brand migration successfully in the Netherlands in October 2015, achieving strong unaided awareness within weeks of the TUI brand in this source market. The TUI brand roll-out has also taken place in France, with Belgium and Nordics following in Autumn 2016 and the UK to follow in late 2017. Brand migration will be funded from ongoing operational efficiency and additional revenues.

Netherlands

Successfull brand migration in October 2015

More direct, more online sales – Having a direct relationship with the customer enables delivery of a more personalised experience and gives us a strong competitive advantage. In 2015 / 16, 72 % of our source market customers booked through our direct channels (up two percentage points on prior year), with 43 % booking online (up two percentage points on prior year). In Northern Region (UK and Nordics) we now sell over 60 % of our holidays online. Further progress has also been made in Central Region (47 % controlled, 15 % online) and Western Region (70 % controlled, 52 % online).

Leveraging our direct relationship with the customer using our global IT platforms – IT is at the heart of TUI, providing the technology solutions required to deliver the TUI Group strategy and help our customers create unforgettable moments. Internet and mobile use among our customers has increased rapidly, so at TUI we're using technology to create ever-more innovative and engaging ways to showcase our great destinations and inspire people's holiday choices, with best in class, more personal digital experiences.

MyTUI App

has been rolled out to ten countries and has had over 3.5 m downloads.

- **Customer App –** The "MyTUI App" is at the heart of our mobile vision. Through this inspirational, effortless technology, we will drive customer behaviour change that will lead to the creation of our biggest digital sales channel of holidays, flights and ancillaries. It will be key to customer acquisition and retention, winning new customers and bringing back old customers time after time. In three years, we have moved from a standing start to multiple awards for our TUI App, which has been rolled out to ten European countries and has had over 3.5 million downloads. The App provides a rich, immersive experience and not only helps customers find and pay for the holiday they want, but allows them to explore their destination, discover places to visit and book unforgettable trips and excursions. We have built the App in such a way that it needs only minimal development to amend it to suit each new country as it is rolled out. This also makes it easier to enhance and update functionality as customers' expectations develop. The roadmap is always evolving due to fast paced technology driving product innovation and business requirements. Currently in development we have inspirational video content, hotel check in, live travel information, social feed, transfer times, native ancillary sales, interactive maps, restaurant booking, and virtual reality, to mention just a few.

- **Group Marketing Platform –** We are investing in transformational capabilities that improve how we interact with our customers, by using what we know about them to provide more timely and personalised customer service and marketing. This is aimed at delivering a better customer experience, driving higher levels of engagement and conversion, and creating business value from every customer interaction by encouraging up-selling, cross-selling and rebooking. We have made significant progress to date, and have rolled out a common marketing platform and programmes to a number of key source markets, aimed at supporting customers through their holiday search and their post-booking holiday countdown. In addition we are trialling other innovations such as a Concierge Service in the UK, providing an enhanced level of service for selected customer segments.

personalised

customer service and marketing

- **Yield Management –** We have developed our own bespoke yield solution to automate the management and pricing of holidays in response to changes in demand and costs throughout the day, seven days a week. This solution contains forecasting algorithms and business logic tailored for the dynamics of the tour operating industry, where flights and hotels are sold simultaneously. It also includes a sophisticated user interface which provides high levels of transparency and control to support the yield process. Following success in the UK, where the first phase went live in 2013 with full rollout in 2014, the solution was rolled out to France in 2015 and to the Nordic market in 2016. We are now targeting a rollout in further markets including Germany over the next 24 months.

Driving operational efficiency improvements – We will continue to drive efficiency improvements across our source markets, including the following:

- In Germany, we remain focused on further increasing market share through a wider holiday offering, further increasing controlled and online distribution, and delivering operational efficiency improvements.
- In France we have completed the acquisition of Transat's French tour operations for an enterprise value of € 55 m. The acquisition will enhance our existing turnaround plans for this source market, through market consolidation and significant margin potential. It is expected to bring underlying EBITA margin in France to around 2.5 %.
- In addition, we are continuing to deliver our efficiencies through our OneAviation programme, through the central control of configuration, purchasing, finance, maintenance and ground handling.

Enhancing top line growth by adding further flexibility for our customers – We utilise technology to deliver additional top line growth with minimal capacity commitment, such as third party flying and dynamic packaging.

Market leading positions which we will continue to grow – Based on the growth levers outlined above, we target profitable top line growth ahead of the market, or around 3 % CAGR Group turnover growth, at constant currency rates. In 2015 / 16 we delivered brand turnover growth (including turnover from our Canadian and TUI Cruises joint ventures) of 2.4 % and turnover growth of 1.4 % at constant currency rates, with underlying growth offset partly by the impact of the lower demand for Turkey within some of our source markets. Customer volumes from our source markets (excluding Canada and Russia) were broadly flat in the year at 19.2 million, with strong growth in the UK and Netherlands offset by volume declines in Germany and the Nordics, mainly as a result of lower demand for Turkey not being fully offset by increased demand to other destinations.

Market leading position

which will continue to grow

3. BALANCE SHEET STRENGTH & FLEXIBILITY

We have a strong and flexible balance sheet, which enables and supports further growth. We will maintain our rigorous focus on financial discipline, to deliver optimal allocation of capital.

Strong operating cash flow provides finance for investments and dividend – We generate a significant level of operating cash flow. Together with the proceeds from the Hotelbeds Group disposal, the high level of operating cash generation will help to finance future investments in growth as well as continuing to generate an attractive dividend yield.

Focus on meaningful investments aligned with our strategy – Our capital expenditure reflects the reinvestment of proceeds in transformational growth following the disposal of Hotelbeds Group. Our priorities for capital allocation are investments in unique hotel and cruise brands. We also continue to allocate capital to strengthen the core of our business – for example, through synergetic acquisitions such as Transat – as well as maintaining a strong and flexible balance sheet to support further growth. We have clear ROIC hurdle rates for new investments, as outlined above, and material investments are approved at Board level.

€ 100 m

merger synergies to be delivered by the end of 2016 / 17

Deliver merger synergies – At the time of the merger with TUI Travel PLC we outlined € 100 m of merger synergies to be delivered by the end of 2016 / 17 from corporate streamlining (€ 50 m), occupancy improvement in Group hotels (€ 30 m) and the integration of Destination Services with our Tourism businesses (€ 20 m). By the end of 2015 / 16 we delivered € 80 m of these synergies, and we are on track to deliver the remaining € 20 m to be delivered by the end of 2016 / 17. In addition, we targeted a reduction in our underlying effective tax rate as a result of the more efficient tax grouping in Germany. This was achieved immediately after the merger, with the Group's underlying effective rate now at 25 %.

Deliver against financial targets with a view to achieving re-rating – Our focus on rating will allow us to obtain advantageous financing conditions and continue to ensure access to debt capital markets. This has already delivered benefits. Moody's upgraded TUI to Ba2 in April 2016, and Standard & Poor's revised its outlook on TUI from Stable to Positive in February 2016. We have delivered against our financial targets for 2015 / 16 with a leverage ratio of 3.3 times (target 3.5 to 2.75 times), and an interest coverage ratio of 4.8 times (target 4.5 to 5.5 times interest). For 2016 / 17 our financial targets have been tightened – leverage ratio target is 3.25 to 2.5 times, and interest cover target is 4.75 to 5.75 times.

Committed to paying an attractive dividend – We are committed to delivering superior returns for our shareholders. Our growth strategy will enable this. We will propose a dividend to our shareholders of 63 cents in respect of 2015 / 16, reflecting 14.5 % growth in the base dividend (in line with underlying EBITA growth at constant currency) plus the additional 10 % outlined at the time of the merger in 2014. For 2016 / 17 we expect to pay a dividend based on growth in underlying EBITA at constant currency (calculated off the base dividend of 58 cents in 2015 / 16).

Continue to maximise value of non-core businesses – We successfully completed the disposal of Hotelbeds Group for a total cash consideration of € 1.2 bn in September 2016, realising significant value for this non-core business. We are in the process of disposing Travelopia and continue to hold our investment in Hapag-Lloyd AG for sale.

€ 1.2 bn

disposal of Hotelbeds Group