Far away from the beaten track: the polar regions are an unrivalled natural spectacle. TUI's expedition vessels offer holiday makers a voyage of the third kind.

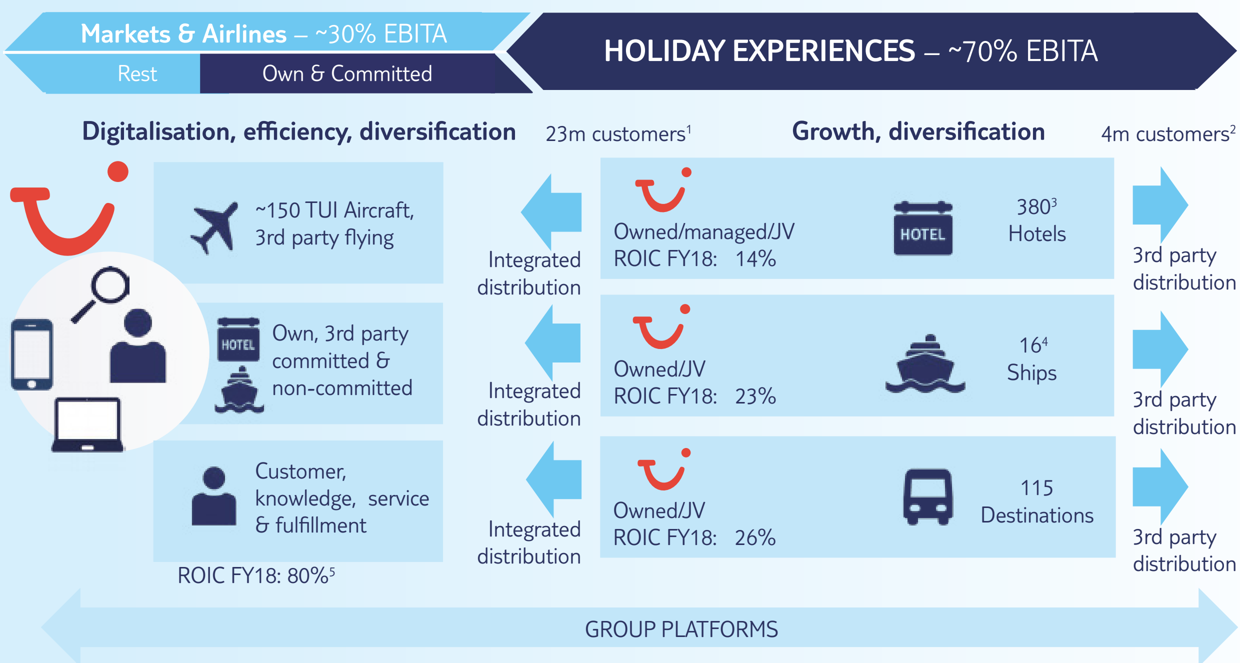
»
READ MORE ABOUT THE WONDERS OF THE ANTARCTIC IN OUR MAGAZINE ARTICLE 'CUTTING ICE'.

COMBINED MANAGEMENT REPORT*

* The present combined Management Report has been drawn up for both the TUI Group and TUI AG. It was prepared in accordance with sections 289, 289 (a), 315 and 315 (a) of the German Commercial Code (HGB) and German Accounting Standards (DRS) numbers 17 and 20.

The combined Management Report also includes the RemunerationReport, the Corporate Governance Report and the Financial Highlights.

TUI GROUP STRATEGY



[1] 21 m Markets & Airlines customers plus a further 2 m for Cruise and from our JVs in Canada and Russia = 23 m
[2] 4 m customers direct and via 3rd party channels to our Hotels & Resort and Cruise brands
[3] This number includes group hotels and 3rd party concept hotels as at end of FY 2018
[4] As at end of FY 2018
[5] This number relates to Markets & Airlines and All other segments

Strategy & Business Model

The leisure travel market has consistently outperformed world output growth over the last decade. This market is also projected to remain very attractive in the future. However, the traditional tour operator and package holiday market remains highly competitive. Online Travel Agencies have started to combine hotel and flight offerings by providing customers with dynamic packaging. In addition, airline operators now provide holiday accommodation as an add-on to de-risk their own flight capacity, supported by increasingly sourcing hotels directly. Meanwhile it is increasingly likely that there will be new market entrants, for example in the form of global tech companies.

Against this background, TUI has strategically moved away from the traditional tour operator model and developed into an integrated provider of Holiday Experiences. We have invested in our own product offerings, enabling us to create unique holidays for our customers, which is a key differentiation factor from our competitors. A TUI customer could be inspired by TUI, and book with TUI, and then experience a TUI flight, TUI transfer in destination, TUI hotel / cruise and TUI activity, as part of our end to end integrated product offering. This means our customers receive a holistic and seamless experience, while TUI receives more accurate information about what our customers truly want, helping our aim to further facilitate individualised offerings. From an end to end customer journey perspective, around 70 % of our underlying EBITA comes from our own and committed differentiated products.

HOLIDAY EXPERIENCES

TUI operates 380 hotels and 16 cruise ships globally through ownership, JVs, management contracts, leases or franchise, and maintains a strong position in the growing tours & activities market with our 150 k excursion and activity offerings. Our differentiated hotel and club brand portfolio, our uniquely positioned German and UK cruise brands, and our global tours, activities and services destination business is well diversified to mitigate content cluster risks.

Details see from page 32

Our strong and in the future fully digitalised risk management tools within distribution and purchasing, allow us to optimise occupancy and yield. 23 m customers come through our Markets & Airlines, including joint ventures in Canada and Russia, complemented by 4 m customers sold either directly by Holiday Experiences, or via third parties. An optimised and in the future fully dynamic allocation of around 100 m bed nights and approx. € 5 bn third party hotel beds purchasing volume globally, will further contribute to our yield maximisation. As part of our divisional strategy, we continue to invest into the growth and diversification of our hotel and cruise portfolio, leading to a more seasonally robust business mix delivering superior margins. Looking ahead, building a new Southeast Asia hotel cluster is a strategic priority. In addition we have a strong pipeline of new ship deliveries in the coming years.

The global and pre-dominantly offline, fast growing tours and activities market, worth over € 150 bn is highly fragmented with over 300 k providers and therefore offers a strong growth and consolidation opportunity for TUI Group. By acquiring the Hotelbeds Destination Management business and the technology platform specialist Musement, TUI has built a leading and fully digitalised Destination Experiences business. From FY 2019 onwards we operate in 49 countries with over 150 k excursions and activities in destinations in our inventory for our own and third party customers. This set up allows us to offer our 27 m customers excursions and activities, in particular even prior to the customers' arrival in the destination. The trust in our brand and our strong fulfillment capabilities allow us to fulfill our customers' expectations from order intake to payment.

MARKETS & AIRLINES

TUI operates a customer centric and diversified distribution and fulfillment business across Europe. We combine leveraging our strong market and customer knowledge, driving customer satisfaction and retention, with service and fulfillment. Packaging and purchasing is increasingly driven through our digital platforms and our own airlines, supported by third party flights, facilitate the link between customer demand and our own, as well as third party committed and non-committed hotel and cruise offerings.

Enhancing efficiency by harmonising these regional market organisations, which include our airlines as well, is a key strategic priority.

In addition, we intend to diversify our existing market footprint further. Through our fully digital LTE platform, we are pursuing a low risk entry strategy, simultaneously improving our position to yield our Holiday Experiences' risk capacity through additional new source market demand.

GROUP PLATFORMS

Our Group platform initiatives, in particular around IT and digitalised customer relationship management, will enable us to enhance our Group yields further. By individualising our offerings and identifying the next best activity for our customers, enabled by our integrated content management and distribution business model, we enhance customer satisfaction and drive our ancillary yields, a win-win opportunity. As an example, our select your room initiative, allows our customers to book their preferred and specific hotel room, which moves our offering from room category pricing to individualised room pricing.

It is the integrated and double diversified nature of our business, which sets us apart from the competition. Our integrated business model proves to be robust, offering flexibility to react to external challenges, either in one of our Markets & Airlines or destinations.

Our employees

Qualified and engaged employees are a major prerequisite for TUI's long-term success. We are aiming to be an attractive employer, encouraging our employees to engage with passion and personality. One of the key elements of our global HR strategy, therefore, is to attract and promote people with talent and to retain them by offering attractive employment conditions. In 2018, our engagement index* is 76, one point below previous year's value. Our goal is to achieve a colleague engagement score of over 80 by 2020 in order to be among the Top 25 global companies.

At the same time, digital transformation creates technical, cultural and organisational challenges for our employees. However, digitalisation also creates opportunities for personalised lifestyles and work design. We are seeking to actively address these requirements and the permanent change taking place in the world of work so as to shape the future together.

* The Engagement Index comprises the individual commitment and the team commitment of our employees. Individual commitment means not only overall satisfaction, but also the willingness for recommendation, the pride to work for a company as well as the belief in its future viability.

Capital Allocation

We will continue to operate within a clearly defined and disciplined capital allocation framework. Our strong cash generation allows us to invest, pay dividends and strengthen the balance sheet. Since the merger, we have generated around €2 bn of disposal proceeds, which we have reinvested primarily into our higher margin, lower seasonality and better quality Holiday Experiences business, with a ROIC hurdle rate for growth investments of at least 15 % on average. We also invest via ring-fenced joint ventures, make use of highly efficient asset finance and other finance instruments, as well as more 'asset light' hotel management contracts, to optimise the cash flow available to shareholders.

Finally, we have a clear financial policy to ensure balance sheet stability, targeting a leverage ratio of 3.0 times to 2.25 times and coverage ratio of 5.75 times to 6.75 times.

Summary

Looking ahead, we continue to expect to deliver superior annual earnings growth with improved seasonality, strong cash conversion and strong ROIC performance. This will be driven by benefits of our digitalisation efforts, efficiency measures and differentiation strategy through the disciplined expansion of own hotel and cruise, plus destination experience content.

Please refer to the Guidance section from page 56 for further details.

Our environment

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

The goals we set ourselves in our 'Better Holidays, Better World' sustainability strategy include 'Step lightly', where we aim to reduce the environmental impact of our business operations and to fix clear, ambitious goals for improvements in all Group areas.

Greenhouse gas emissions and the impact of these emissions on climate change pose one of the major global challenges for the tourism sector. In FY 2018, TUI Group's total emissions increased year-on-year in absolute terms, primarily due to the growth in Airlines & Aviation. At 66.7 g CO_2 / pkm, specific carbon emissions of our airlines were flat year-on-year. This means that we already operate one of Europe's most carbon-efficient airlines and continually seek to deliver further improvements.

Our goal: We will operate the most carbon-efficient airlines in Europe and cut the carbon intensity of our operations by 10 % by 2020 (baseline year 2014).

CORPORATE PROFILE

How we do it – Group structure

TUI GROUP

HOLIDAY EXPERIENCES	MARKETS & AIRLINES	OTHER SEGMENTS
Hotels & Resorts Cruises Destination Experiences	Northern Region Central Region Western Region	

TUI AG parent company

TUI AG is TUI Group's parent company headquartered in Hanover and Berlin. It holds direct or, via its affiliates, indirect interests in the principal Group companies conducting the Group's operating business in individual countries. Overall, TUI AG's group of consolidated companies comprised 285 direct and indirect subsidiaries at the balance sheet date. A further 17 affiliated companies and 27 joint ventures were included in TUI AG's consolidated financial statements on the basis of at equity measurement.

For further details on principles and methods of consolidation and TUI Group shareholdings see pages 161 and 251.

ORGANISATION AND MANAGEMENT

TUI AG is a stock corporation under German law, whose basic principle is dual management by two boards, the Executive Board and the Supervisory Board. The Executive and Supervisory Boards cooperate closely in governing and monitoring the Company. The Executive Board is responsible for the overall management of the Company.

The appointment and removal of Board members is based on sections 84 et seq. of the German Stock Corporation Act in combination with section 31 of the German Co-Determination Act. Amendments to the Articles of Association are effected on the basis of the provisions of sections 179 et seq. of the German Stock Corporation Act in combination with section 24 of TUI AG's Articles of Association.

EXECUTIVE BOARD AND GROUP EXECUTIVE COMMITTEE

As at the balance sheet date, the Executive Board of TUI AG consisted of the CEO and five other Board members.

For details on Executive Board members see page 114

A Group Executive Committee was set up in order to manage TUI Group strategically and operationally. As at 30 September 2018, the Committee consisted of twelve members who meet under the chairmanship of CEO Friedrich Joussen.

TUI Group structure

Since the merger between TUI AG and TUI Travel PLC in December 2014, TUI Group has been a world market leader in tourism. Its core businesses, Holiday Experiences and Markets & Airlines, are clustered into the segments Hotels & Resorts, Cruises and Destination Experiences as well as three regions: Northern, Central and Western Regions. TUI Group also comprises All other segments.

In FY 2018 we have adjusted our segmental reporting to reflect the growing strategic importance of the services delivered in our destinations. Destination Experiences is now reported separately in the segmental structure, and within Holiday Experiences together with Hotels & Resorts and Cruises. The further businesses of former Other Tourism and All other segments have been combined into All other segments. There are no changes to the total numbers. The prior year's reference figures were restated accordingly.

HOLIDAY EXPERIENCES

Holiday Experiences comprises our hotel, cruise and destination activities.

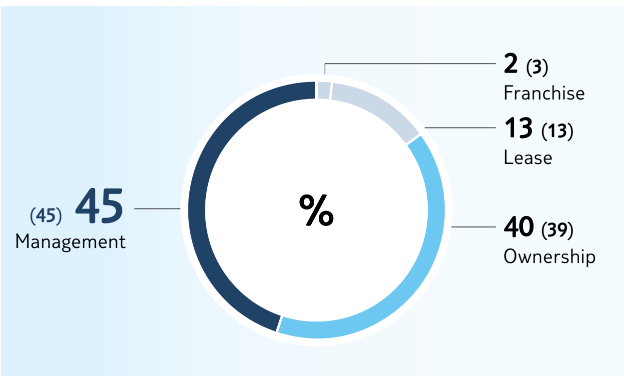
HOTELS & RESORTS

The Hotels & Resorts segment comprises TUI Group's diversified portfolio of Group hotel brands and hotel companies. The segment includes ownership in hotels, joint ventures with local partners, stakes in companies giving TUI a significant influence, and hotels operated under management contracts.

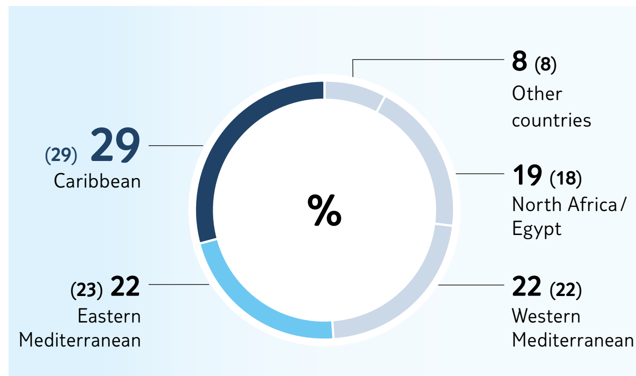
In FY 2018, Hotels & Resorts comprised a total of 330 hotels with 241,207 beds. 306 TUI Hotels & Resorts, i.e. the majority, are in the four- or five-star category. 45 % were operated under management contracts, 40 % were owned by one of the hotel companies, 13 % were leased and 2 % of the hotels were managed under franchise agreements.

In addition there are also 50 concept hotels operated by third party hoteliers under the TUI concept brands, TUI Sensatori, TUI Sensimar and TUI Family Life, making a total of 380 Group hotels, incuding third party.

Hotels & Resorts financing structure %



Hotels & Resorts beds per region %



In brackets: previous year

Categories of Hotels & Resorts

Hotel brand	3 stars	4 stars	5 stars	Total hotels	Beds	Main sites
Riu	3	46	41	90	82,638	Spain, Mexico, Caribbean, Cape Verde, Portugal, Morocco
Robinson	–	18	6	24	14,403	Spain, Greece, Turkey, Austria
Blue Diamond	2	10	14	26	27,016	Cuba, Dom. Rep., Jamaica, Mexico, Saint Lucia
Other hotel companies	19	117	54	190	117,150	Spain, Greece, Turkey, Egypt
Total	**24**	**191**	**115**	**330**	**241,207**	
TUI Sensatori, TUI Sensimar, TUI Family – third party concept hotels	–	32	18	50	11,696*	Spain, Greece, Italy

* rooms
As at 30 September 2018

Riu is the largest hotel company in the portfolio of Hotels & Resorts. The Majorca-based enterprise has a high proportion of regular customers and stands for professionalism and excellent service. Most of the hotels are in the premium and comfort segments and they are predominantly located in Spain, Mexico and the Caribbean.

Robinson, the leading provider in the German-speaking premium club holiday segment, is characterised by its professional sport, entertainment and event portfolio. Moreover, the clubs offer high-quality hotel amenities, excellent service and spacious architecture. Most of the hotels are located in Spain, Greece, Turkey, the Maldives and Austria. The facilities are also aspirational in terms of promoting sustainable development and signing up to specific environmental standards.

Blue Diamond is a fast growing resort chain in the Caribbean with a unique approach of tailoring hotels to meet the highest expectations. 26 Blue Diamond resorts are shown in the segment.

Other hotel companies include in particular the Group's other core brands TUI Blue and TUI Magic Life, as well as our exclusive hotel concepts TUI Sensimar, TUI Sensatori and TUI Family Life. They provide holidays in top locations in our destinations and meet high performance, quality and environmental standards.

CRUISES

The Cruises segment consists of the joint venture TUI Cruises, Marella Cruises and Hapag-Lloyd Cruises. With their combined fleet of 16 vessels, the three cruise lines offer different service concepts to serve different target groups.

Cruise fleet by ownership structure

	Owned	Finance Lease	Operating Lease	Total
TUI Cruises (Joint Venture)	6	–	–	6
Marella Cruises	3	2	1	6
Hapag-Lloyd Cruises	3	–	1	4

As at 30 September 2018

Hamburg-based TUI Cruises is a joint venture formed in 2008 between TUI AG and the US shipping company Royal Caribbean Cruises Ltd., in which each partner holds a 50 % stake. With six ships so far, TUI Cruises is top-ranked in the German-speaking premium market for cruises. The Berlitz Cruise Guide, the most important international reference guide for cruise ship ratings, rated Mein Schiff 3, Mein Schiff 4, Mein Schiff 5 and Mein Schiff 6 among the world's five best liners in the category 'Large Ships'.

Marella Cruises, operated under the brand Thomson Cruises until October 2017, offers voyages for different segments in the British market with a fleet of six cruise liners.

Hapag-Lloyd Cruises is based in Hamburg, and it holds a position of leadership in the German-language market with its fleet of four liners in the luxury and expedition cruise segments. Its flagships Europa and Europa 2 were again awarded the top rating – the 5-stars-plus category – by the Berlitz Cruise Guide. Its expedition liners include Hanseatic and Bremen. Hanseatic nature and Hanseatic inspiration will complement the luxury expedition segment from 2019.

DESTINATION EXPERIENCES

The Destination Experiences segment delivers local services in the worldwide holiday destinations. TUI employs people in 49 countries to ensure these services and is among the top providers of tours, activities and excursions in the destinations. Thanks to the acquisition of the technology start-up Musement in October 2018, TUI now has an online platform that gives small and medium-sized companies the opportunity to offer their services in the holiday destinations following quality checks.

MARKETS & AIRLINES (FORMERLY SALES & MARKETING)

With our three regions Northern, Central and Western Region, we have well positioned sales and marketing structures providing more than 23 m customers (including via our JVs in Canada and Russia) a year with exceptional holiday experiences. Our sales activities are based on online and offline channels that also benefit from TUI's strong market position. The travel agencies include Group-owned agencies as well as joint ventures and agencies operated by third parties. Thanks to our direct customer access, we are able to build close relationships with our guests, and in future this will allow us to gear their entire holiday experience even more closely to their personal wishes and preferences, giving us a crucial advantage over our competitors. In order to offer our customers a wide choice of hotels, our Markets & Airlines organisations have access to the exclusive portfolio of TUI hotels.

They also have access to third-party bed capacity, some of which have been contractually committed. Our own flight capacity continues to play a key role in our integrated business model. A combination of owned and third-party flying capacity enables us to offer tailor-made travel programmes for each individual source market region and to respond flexibly to changes in customer preferences. Thanks to the balanced management of flight and hotel capacity, we are able to develop high-profile destinations and optimise the margins of both service providers. In FY 2018, we continued to deliver our internal efficiency enhancement programme at one Aviation, delivering further economies of scale. In the financial year under review, we continued our path towards a modern, fuel-efficient fleet. In 2018, the first Boeing 737 Max jets were delivered. TUI Group has ordered a total of 68 planes of this type, considered to be the state of the art in this category of aircraft. They are scheduled for delivery by 2023. Overall, there are more than 150 aircraft in the TUI fleet.

NORTHERN REGION

The Northern Region segment comprises tour operator activities and airlines in the UK, Ireland and the Nordics. In addition, the Canadian strategic venture Sunwing and the joint venture TUI Russia have been included within this segment.

CENTRAL REGION

The Central Region segment comprises the tour operator activities and airlines in Germany and the tour operator activities in Austria, Switzerland and Poland.

WESTERN REGION

The tour operator activities and airlines in Belgium, the Netherlands and the tour operator activities in France are included within the segment Western Region.

ALL OTHER SEGMENTS

The category 'All other segments' includes our business activities for the new markets, the French airline Corsair, the corporate centre functions of TUI AG and the interim holdings, as well as the Group's real estate companies.

Research and development

As a tourism service provider, the TUI Group does not engage in research and development activities comparable with manufacturing companies. This sub-report is therefore not prepared.

Value-oriented Group management

Management system and key performance indicators

A standardised management system has been created to implement value-driven management across the Group as a whole and in its individual business segments. The value-oriented management system is an integral part of consistent Group-wide planning and controlling processes.

Our key financial performance indicators for the development of the earnings position are turnover and the Group's underlying earnings before interest, taxes and expenses for the measurement of interest hedges and amortisation of goodwill (underlying EBITA). EBITA and underlying EBITA do not include measurement effects from interest hedges. In the prior year it did not include earnings effects from container shipping. Underlying EBITA has been adjusted for gains on disposal of investments, restructuring expenses according to IAS 37, all effects of purchase price allocations, ancillary acquisition costs and conditional purchase price payments as well as other expenses for and income from one-off items. One-off items carried as adjustments are income and expense items impacting or distorting the assessment of the operating profitability of the segments and the Group due to their level and frequency. These one-off items include in particular major restructuring and integration expenses not meeting the criteria of IAS 37, major expenses for litigation, gains and losses from the sale of aircraft and other material business transactions of a one-off nature.

For the development of the Group's financial position in FY 2018, we have identified TUI Group's net capital expenditure and investments and net financial position as key performance indicators.

Instead of the net financial position, we will report the Group's leverage ratio as the key performance indicator for its financial position from FY 2019.

Key management variables used for regular value analysis are Return On Invested Capital (ROIC) and Economic Value Added. ROIC is compared with the segment-specific cost of capital.

We regard specific CO_2 emissions (in g CO_2 / PKM) of our aircraft fleet as a key non-financial performance indicator.

In order to track business performance in our segments in the course of the year, we also monitor other secondary non-financial performance indicators, such as customer numbers in Markets & Airlines, and capacity or passenger days, occupancy and average prices in Hotels & Resorts and Cruises.

Information on operating performance indicators is provided in the sections 'Segmental performance' on page 67 and 'The environment' on page 86.

Cost of capital (WACC)

Cost of capital (WACC)

%	Hotels 2018	Cruises 2018	Markets & Airlines[3] 2018	TUI Group 2018
Risk-free interest rate	1.00	1.00	1.00	1.00
Risk adjustment	6.00	6.48	6.47	5.72
Market risk premium	6.50	6.50	6.50	6.50
Beta factor[1]	0.92	1.00	0.99	0.88
Cost of equity after taxes	**7.00**	**7.48**	**7.47**	**6.72**
Cost of debt capital before taxes	2.55	2.55	3.66	3.66
Tax shield	0.64	0.05	0.84	0.74
Cost of debt capital after taxes	**1.91**	**2.50**	**2.82**	**2.92**
Share of equity[2]	83.26	71.58	63.89	62.32
Share of debt capital[2]	16.74	28.42	36.11	37.68
WACC after taxes	**6.15**	**6.06**	**5.79**	**5.29**
Cost of equity before taxes	**8.93**	**7.60**	**9.17**	**8.01**
Cost of debt capital before taxes	**2.55**	**2.55**	**3.66**	**3.66**
Share of equity[2]	83.26	71.58	63.89	62.32
Share of debt capital[2]	16.74	28.42	36.11	37.68
WACC before taxes	**7.86**	**6.16**	**7.18**	**6.37**

1 Segment beta based on peer group, group beta based on Capital IQ data base.
2 Segment share based on peer group, group share based on Capital IQ data base.
3 Due to insufficient statistical significance of Thomas Cook Group plc and H.I.S. Co., Ltd. shown in the standard procedure of beta regression (average of 60 monthly data points over 5 years), we have performed an alternative beta regression based on average of 104 weekly data points over two years. The alternative beta regression shows statistical significance for all peer companies.

The cost of capital is calculated as the weighted average cost of equity and debt capital (WACC). While the cost of equity reflects the return expected by investors from TUI shares, the cost of debt capital is based on the average borrowing costs of the TUI Group. The cost of capital always shows pre-tax costs, i. e. costs before corporate and investor taxes. The expected return determined in this way is subjected to the same tax level as the underlying earnings included in ROIC.

ROIC and Economic Value Added

ROIC is calculated as the ratio of underlying earnings before interest, taxes and amortisation of goodwill (underlying EBITA) to the average invested interest-bearing capital (invested capital) for the relevant segment. Given its definition, this performance indicator is not influenced by any tax or financial factors and has been adjusted for one-off items. From a Group perspective, invested capital is derived from liabilities, comprising equity (including non-controlling interests) and the balance of interest-bearing liabilities and interest-bearing assets and an adjustment to reflect the seasonal change in the Group's net financial position. The cumulative amortisations of purchase price allocations are then added to invested capital.

Apart from ROIC as a relative performance indicator, Economic Value Added is used as an absolute value-oriented performance indicator. Economic Value Added is calculated as the product of ROIC less associated capital costs multiplied by invested interest-bearing capital.

Invested Capital

€ million	Notes	2018	2017
Equity		**4,333.6**	**3,533.7**
Subscribed capital	(23)	1,502.9	1,501.6
Capital reserves	(24)	4,200.5	4,195.0
Revenue reserves	(25)	–2,005.3	–2,756.9
Non-controlling interest	(27)	635.5	594.0
plus interest bearing financial liability items		**3,516.2**	**3,328.2**
Pension provisions and similar obigations	(28)	994.8	1,127.4
Non-current financial liabilities	(30), (36)	2,250.7	1,761.2
Current financial liabilities	(30), (36)	192.2	171.9
Derivative financial instruments	(36)	78.5	267.7
less financial assets		**3,390.1**	**3,024.7**
Financial assets available for sale	(36)	54.3	69.5
Derivative financial instruments	(36)	525.0	295.3
Cash and cash equivalents	(21), (36)	2,548.0	2,516.1
Other financial assets		262.8	143.8
= Invested Capital before addition of effects from purchase price allocation		**4,459.7**	**3,837.2**
Invested Capital excluding effects from purchase price allocation prior year		3,837.2	3,880.1
Seasonal adjustment[1]		500.0	500.0
Ø Invested capital before addition of effects from purchase price allocation[2]		**4,648.2**	**4,358.7**
Invested Capital before addition of effects from purchase price allocation		**4,459.7**	**3,837.2**
plus effects from purchase price allocation		342.0	317.5
= Invested Capital		**4,801.7**	**4,154.7**
Invested Capital prior year		4,154.7	4,180.6
Seasonal adjustment[1]		500.0	500.0
Ø Invested Capital[2]		**4,978.2**	**4,667.7**

ROIC

€ million		Notes	2018	2017
Underlying EBITA			**1,147.0**	**1,102.1**
Ø Invested Capital[2]			**4,978.2**	**4,667.7**
ROIC	**%**		**23.04**	**23.61**
Weighted average cost of capital (WACC)	%		6.37	6.75
Value added			**829.9**	**787.0**

[1] Adjustment to net debt to reflect a seasonal average cash balance
[2] Average value based on balance at beginning and year-end

For TUI Group, ROIC was 23.04 %, down by 0.57 percentage points year-on-year. With the cost of capital at 6.37 %, this yielded positive Economic Value Added of € 829.9 m (previous year € 787.0 m).

Group indicators used in the remuneration system for the Executive Board

JEV-RELEVANT GROUP RESULT AT CONSTANT CURRENCY

When determining the Executive Board's annual performance-based remuneration (JEV), the Group's EBT (earnings before taxes) on a constant currency basis is applied with a weighting of 50 %. Using this indicator means that the net financial result is included in calculations of JEV. It is adjusted for foreign exchange effects so that actual management performance can be measured without distortion from the impact of currency translation.

EBT on a constant currency basis was as follows in the financial year under review:

Reconciliation EBT

€ million	2018
Earnings before income taxes	**971.5**
FX effects from translation to budget rates	88.0
EBT at budget rates	**1,059.5**

JEV-RELEVANT RETURN ON INVESTED CAPITAL (ROIC)

The Group performance indicator ROIC is applied to JEV with a weighting of 25 %. TUI Group's ROIC for the calculation of JEV is derived from the ratio of the Group's EBITA to the average invested interest-bearing capital for the financial year. TUI Group's ROIC used to calculate JEV was as follows in the financial year under review:

ROIC JEV

€ million		2018
EBITA		**1,060.2**
Ø Invested capital excl. purchase price allocation*		4,648.4
ROIC JEV	%	**22.81**

* Average value based on balance at beginning and year-end

JEV-RELEVANT CASH FLOW

The third Group performance indicator included in the calculation of JEV is the cash flow component 'Cash flow to the firm' with a weighting of 25 %. For this purpose, the cash flow to the firm is calculated using a simplified approach based on the management cash flow calculation, which covers the liquidity parameters directly controlled by the Executive Board (depreciation / amortisation, working capital, income from investments and dividends, net investments) on the basis of TUI Group's EBITA, adjusted for foreign exchange effects.

The cash flow to the firm used to calculate JEV was as follows in the financial year under review:

Cash Flow to the firm

€ million	2018
EBITA	**1,060.2**
Effect from translation to budget rates	96.9
EBITA at budget rates	**1,157.1**
Amortisation (+) / write-backs (–) of other intangible assets and depreciation (+) / write-backs (–) of property, plant and equipment	438.3
Delta Working Capital	66.4
Share of result of joint ventures and assoiciates	– 297.7
Dividends from joint ventures and assoiciates	222.7
Net capex and investments	– 827.0
Cash Flow to the firm	**759.7**

Reconciliation of change in working capital according to cash flow to the firm

€ million	30 Sep 2018	30 Sep 2017
Non-current assets	4,929.7	4,317.9
less cash and cash equivalents	– 2,548.0	– 2,516.1
less non-current liabilities	– 6,506.8	– 6,152.1
plus current financial liabilities	192.2	171.9
less current other provisions	– 348.3	– 349.9
less net tax receivables	– 27.6	– 33.4
less / plus net current derivative financial instruments	– 376.1	1.8
less interest bearing receivables	– 55.5	– 49.2
plus current accrued interest	25.6	28.6
Working capital according to balance sheet	**– 4,714.8**	**– 4,580.5**
Change in working capital acc. to balance sheet	134.3	
Exchange rate differences	– 67.9	
Change in working capital acc. to cash flow to the firm	**66.4**	

UNDERLYING EARNINGS PER SHARE

When determining the long-term remuneration of the Executive Board (Long Term Incentive Plan – LTIP), the average development of underlying earnings per share from continuing operations (LTIP-relevant EPS) is applied with a weighting of 50 %.

The table below shows TUI Group's underlying earnings per share. The net interest expense used for the calculation was adjusted for interest portions of the reversal of a provision of €31.2 m recognised in the financial year under review. A normalised Group tax rate of 20 % was assumed for the calculation. An adjustment was carried for non-controlling interests to reflect the normalised tax rate used in determining underlying earnings per share in the financial year under review. The calculation is based on subscribed capital at the balance sheet date. Underlying earnings per share from continuing operations (LTIP-relevant EPS) developed as follows in the financial year under review:

Pro forma underlying earnings per share TUI Group

€ million		2018	2017
EBITA (underlying)		**1,147.0**	**1,102.1**
less: Net interest expense (adjusted)		–119.9	–119.2
Underlying profit before tax		**1,027.1**	**982.9**
Income taxes (20 % assumed tax rate)		205.4	196.6
Underlying Group profit		**821.7**	**786.3**
Minority interest (adjusted)		134.8	116.6
Underlying Group profit attributable to TUI shareholders of TUI AG		**686.9**	**669.7**
Number of shares at FY end	No. million	587.9	587.0
Underlying earnings per share		**1.17**	**1.14**

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.

The current financial year has seen further maturity of the risk management system with the introduction of an aligned operational controls testing process in addition to regular testing of key financial controls occurring across all of our larger businesses. Further cohesion between all risk & control functions is being implemented to support an integrated assurance process between all of the second lines of defense departments. Our risk governance framework is set out below:

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 DEPARTMENT
Support & Report

BUSINESSES & FUNCTIONS
Identify & Assess

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

RISK CHAMPION COMMUNITY

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. On an annual basis the Group Strategy 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 organisation 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 controls in place to manage those risks and any action plans to further improve controls, 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, other members of the Committee include the CEO Aviation, the directors of Strategy, Financial Accounting, Treasury & Insurance and Group HR. In addition to these, all of the second lines of defense functions including Risk, Financial Control, Legal Compliance, IT Security and Health & Safety are represented on the committee. The director of Group Audit attends as an independent member and therefore is without voting rights.

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 improvement in risk management and reporting.

Risk Reporting

The Group Risk department applies a consistent risk reporting methodology across the Group. This is underpinned by a risk and control software which reinforces clarity of language, visibility of risks, controls 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 the risks 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 crystallise. 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 worst case scenario, being the product of the impact together with the likelihood of the risk materializing if there are no controls in place to manage, mitigate or monitor the risk. The key benefit of assessing the gross risk is that it highlights the potential risk exposure if controls 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 on the right:

Impact Assessment

	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
QUANTITATIVE	*< 3 % EBITA* (< € 35 m)*	*3 – < 5 % EBITA* (35 – < € 60 m)*	*5 – < 10 % EBITA* (60 – < € 120 m)*	*10 – < 15 % EBITA* (120 – < € 180 m)*	*≥ 15 % EBITA* (≥ € 180 m)*
QUALITATIVE	*Minimal impact on*	*Limited impact on*	*Short term impact on*	*Medium term impact on*	*Detrimental impact on*
	• Global reputation • Programme delivery • Technology reliability • Health & Safety standards	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*	*• Global reputation • Programme delivery • Technology reliability • Health & Safety standards*

* Budgeted underlying EBITA for the financial year ended 30 September 2018

Likelihood Assessment

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

The next step in the risk reporting process is to assess and document the controls that are 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 implemented controls in operation. 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 controls currently 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 controls in place continue to be operated and management monitor the risk, the controls and the risk landscape to ensure that they stay in line with management's tolerance of the risk.

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 controls that will further reduce the impact and / or likelihood of the risk to an acceptable, tolerable and justifiable 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.

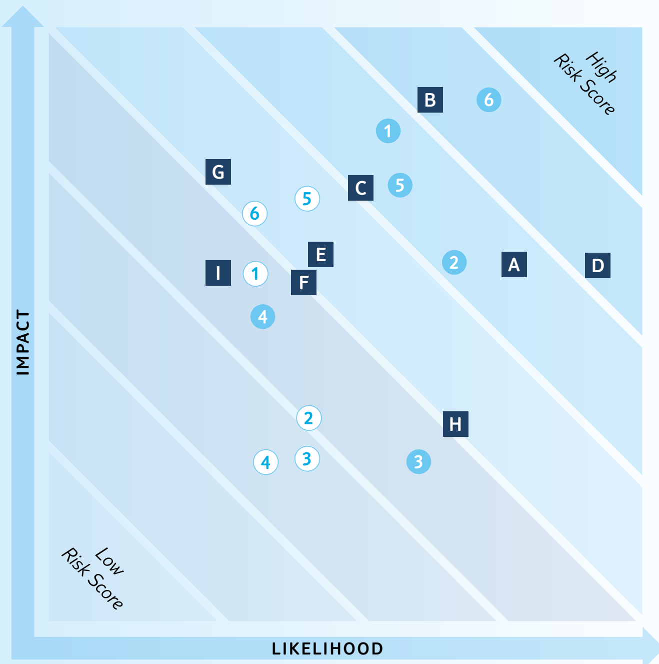
Each business and function will continue to review their risk register on an ongoing basis through the mechanism appropriate for their business e. g. local Risk Committee.

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.

Principal Risk Heat Map



ACTIVE RISKS

CURRENT RISK POSITION **TARGET RISK POSITION**

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

MONITORED RISKS

CURRENT RISK POSITION

A *Destination Disruptions*
B *Macroeconomic Risks*
C *Competition & Consumer Preferences*
D *Input Cost Volatility*
E *Seasonal Cash Flow Profile*
F *Legal & Regulatory Compliance*
G *Health & Safety*
H *Supply Chain Risk*
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.

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 rigor 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 this identifies, the common business management level at which those entities are managed is identified to dictate the entities which 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 and controls are able to be captured appropriately at the level at which the risks are being managed.

EFFECTIVENESS OF THE RISK MANAGEMENT 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 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 controls currently in place as well as any action plans to introduce further controls, 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 controls 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 generally inherent to the tourism sector 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 controls 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 43. Note that the quantitative impact assessment is based on the budgeted underlying EBITA for the financial year ended 30 September 2018.

FY 2018 Principal Risks

With the UK government formally triggering Article 50 of the Treaty on European Union of Lisbon on 29th March 2017, Brexit continues to remain an active principal risk. Brexit has an impact both on existing principal risks (e.g. Macroeconomic and Input Cost Volatility, particularly for the UK market through the uncertainty it has introduced to prospects for future growth rates in the UK economy and the depreciation of sterling since the referendum result in 2016) as well as its own class of principal risk due to the direct potential impact it could have on specific areas of our business model.

The main concern related to Brexit continues to be whether our airlines will continue to have access to EU airspace. We will continue to address the importance of there being a special agreement for aviation to protect consumer choice with the relevant UK and EU ministers and officials, and are in regular exchange with relevant regulatory authorities. We are currently developing scenarios and mitigating strategies for various outcomes, including a 'hard Brexit', depending on the political negotiations, with a focus to alleviate any potential impacts from Brexit for the Group. Our Brexit Steering Committee continues to monitor external developments and coordinates measures to be taken ahead of March 2019, when the UK will be formally exiting the European Union. Beyond weekly meetings an the level of different internal Brexit work-streams, the topic is also regularly (bi-weekly/monthly) discussed in the TUI Group Executive Committee (GEC), and the Supervisory Board has been updated quarterly in 2018.

With the EU GDPR regulation being enforced in May 2018, whereby any data breaches may result in a significant financial penalty, the gross score of the Information Security principal risk has increased. Our mitigation strategy including making information security part of everyone's job continues to focus on managing the likelihood of this risk materializing.

As the brand change program has been successfully implemented in all markets, the related risk is no longer considered principal to 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.

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 leading digital solutions, core platform capabilities, underlying technical infrastructure and IT services required to support the Group's overall strategy for driving profitable top-line growth. If we are ineffective in our IT strategy or technology development this could impact on our ability to provide leading technology solutions in our markets and therefore impacting on our competitiveness, our ability to provide a superior customer experience and associated impact on quality and operational efficiency. This would ultimately impact on our customer numbers, revenue and profitability.	• Developed and communicated (in conjunction with Executives, Business & IT Leadership Teams) the Group's IT Strategy which is clearly aligned to our overall business objectives and considers external factors such as the pace of technology change and internal factors such as the underlying quality required throughout IT. • Continuing to implement our online platform in order to enhance customer experience and drive higher conversion rates. • Implementing a SAP-based central customer platform to collate all information on our customers across their journey to provide a single view of the customer alongside an eCRM platform which will support strategic marketing. • Placing increased focus on ensuring continuity plans for critical IT systems are in place and regularly tested. • Cascaded clear technology standards and associated delivery roadmaps which are linked to Group wide and individual market objectives. • Adopting API, Big Data and Cloud architecture to drive improved speed, productivity and efficiency.

Nature of Risk	Mitigating Factors
	• Using Blockchain technology to manage hotel bed allocation in all markets to be ahead of the competition.

2. GROWTH STRATEGY

We have set ourselves a target of achieving at least 10 % growth in underlying EBITA CAGR (see page 57). This will be driven by growth in our hotel and cruises content, the destination experiences sector as well as top line and efficiency improvements. Additionally our in-house aviation allows us to introduce extra flexibility into our packages and to utilise our flight capacity in conjunction with own hotel capacity to build high profile destinations. Asset utilisation of aircraft, cruise ships and hotels is critical to our financial success particularly when in a growth phase. There is a risk that we could be unsuccessful in maximising opportunities to execute our expansion strategy. This could mean that we fail to achieve some of the initiatives we have embarked upon, which could result in us falling short against the overall growth targets we have set for the business.	• The Executive Board is very focussed on the strategy and mindful of the risks, so there is strong direction and commitment from the top. The remuneration scheme in place for the Executive Board is designed to create incentives for the Group's sustained growth and robust financial performance (see from page 128). • The Group Tourism Board plays an important role in coordinating, executing and monitoring the various growth initiatives. • There are a number of initiatives underway to achieve growth which reduces the risk through diversification. • Each of the businesses tasked with achieving an element of the growth strategy are still required to maintain sound financial discipline. The Group's investment criteria and authorisation processes must still be adhered to as we are not prepared to be reckless in the pursuit of growth. • We continue to maintain strong relationships with the providers of aircraft finance. • Monitoring the overall market conditions continues to occur so that plans can be adapted or contingency plans invoked if required.

3. INTEGRATION & RESTRUCTURING OPPORTUNITIES

Our key strategic rationale for the Group is to act 'as one' wherever it makes sense to do so particularly through our Group Platforms, whilst maintaining local differences where the benefit of that differentiation is greater than that of harmonisation. There are a number of restructuring projects underway across the Group as a result to enable us to achieve these opportunities. Furthermore our continuous review of our own businesses and competitors means that we have an active programme of acquisitions (e.g. the destination management companies from Hotelbeds this year) and previously business disposals (e.g. Travelopia in FY 2017) with associated integration projects. There is an inherent risk with any large restructuring or integration programme that we face challenges in managing the complexities associated with further integrating our business, and reducing overlapping activities in order to develop a more lean and streamlined operating model. If we are not successful in leveraging and optimizing the identified opportunities this could have a significant impact on our ability to deliver the identified benefits in line with expectations and enhance shareholder value.	• Strong project management structures exist for all of the major restructuring, acquisition and disposal programs, which are underway to ensure that they are managed effectively. • Project reporting tool ensures enhanced visibility of the progress of major projects as a matter of routine. • Regular reporting by the major projects to the Executive Board to ensure swift resolution of any issues or to enhance coordination across the Group where required.

Nature of Risk	Mitigating Factors
4. CORPORATE & SOCIAL RESPONSIBILITY	
For the Group, economic, environmental and social sustainability is a fundamental management principle and a cornerstone of our strategy for continually enhancing the value of our Company. This is the way we create the conditions for long-term economic success and assume responsibility for sustainable development in the tourism sector. Our focus is to reduce the environmental impact of our holidays and promote responsible social policies and outcomes both directly through our own business and indirectly via our influence over our supply chain partners, thereby creating positive change for people and communities and being a pioneer of sustainable tourism across the world. There is a risk that we are not successful in driving forecast social and environmental improvements across our operations, that our suppliers do not uphold our corporate and social responsibility standards and we fail to influence destinations to manage tourism more sustainably. If we do not maximize our positive impact on destinations and minimize the negative impact to the extent that our stakeholders expect, this could result in a decline in stakeholder confidence, reputational damage, reduction in demand for our products and services and loss of competitive advantage. Furthermore, if the Group falls short of achieving its sustainable development targets and at the same time the objectives of the UN Paris Climate Change Agreement (December 2015) are not met, this could lead to sustained long-term damage to some of the Group's current and future destinations, which could also have a material adverse effect on demand for our products and services.	• Developed and launched in 2015 the 'Better Holidays, Better World' 2020 sustainability strategy framework which includes specific targets for key sustainability indicators. • Established a dedicated sustainability department to work closely with the business and other stakeholders to implement the sustainability strategy. • Operating one of the most carbon efficient airlines in Europe with continued investment in new, more efficient aircraft (e.g. Boeing 787 Dreamliner & 737 Max) and cruise ships (e.g. the new Mein Schiff 1 & 2). • Implemented an environmental management system with five of our airlines having achieved ISO 14001 certification. • Increased measures to influence accommodation suppliers to achieve third party sustainability certification recognized by the Global Sustainable Tourism Council (GSTC). • TUI Care Foundation expanded to focus on the achievement of 2020 target for charitable donations and sustainability projects, with particular emphasis empowering young people, protecting the natural environment and maximizing the economic benefits of tourism in destinations.

Nature of Risk	Mitigating Factors
5. INFORMATION SECURITY	
Our responsibility is to protect the confidentiality, integrity and availability of the data we have to provide to our customers, employees, suppliers and service delivery teams. This is a dynamic risk due to increased global cyber-crime activity and new regulations (e. g. EU GDPR). At the same time our consolidation under the TUI brand and our increasing dependence on online sales and customer care channels (web / mobile) increases our exposure and susceptibility to cyber-attacks and hacks. If we do not ensure we have the appropriate level of security controls in place across the Group, this could have a significant negative impact on our key stakeholders, associated reputational damage and potential for financial implications.	• Continued commitment from the Executive Board in support of key initiatives to ensure all existing and future IT systems are secure by design, that exposure to vulnerability is managed effectively, user access is sufficiently controlled and colleagues are made aware of information security risks through appropriate training. • Launch of a company-wide Information Security awareness campaign to promote secure behaviors amongst our colleagues. Overall goal is to make information security part of everyone's job. • Continuous review and testing of all external devices and ongoing monitoring of logs in order to identify any potential threats as and when they arise. • Continuous improvement through lessons learned from real or simulated cyber incidents.
6. BREXIT	
Our main concern is whether or not all of our airlines will continue to have access to EU airspace as now. If we were unable to continue to fly intra-EU routes, such as from Germany to Spain, this would have a significant operational and financial impact on the Group. Other areas of uncertainty include the status of our UK employees working in the EU and vice versa and the potential for customer visa requirements for holidays from the UK to the EU.	• The Executive Board has established a Brexit Steering Committee to monitor developments as the political negotiations take place, assess any impacts on the Group's business model and coordinate suitable mitigation strategies to be taken ahead of March 2019, when the UK will be formally exiting the European Union. • In addition we continue to lobby relevant UK and EU ministers, officials and regulators to stress the continued importance of a liberalized and deregulated aviation market across Europe to protect consumer choice in both regions.

Nature of Risk	Mitigating Factors

Monitored Principal Risks

A. DESTINATION DISRUPTION

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

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

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

B. MACROECONOMIC

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

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

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

Nature of Risk	Mitigating Factors
C. COMPETITION & CUSTOMER PREFERENCES	
The tourism industry is fast-paced and competitive with the emergence of new market participants operating new business models, combined with customer tastes and preferences evolving all the time. In recent years there has been an emergence of successful substitute business models such as web-based travel and hotel portals which allow end users to combine the individual elements of a holiday trip on their own and book them separately. Customer tastes and preferences have evolved in recent years as well, with more booking their holidays online and via mobiles and tablets, and booking closer to the time of travel. There is the risk that if we do not respond adequately to such business model disruption or if our products and services fail to meet changing customer demands and preferences, that our turnover, market share and profitability will suffer as a result.	• Our outstanding market position as a leading tourism group, the strength of our brand and our integrated business model enables us to respond robustly to competitive threats. • The Group is characterized by the continuous development of unique and exclusive holiday experiences, developing new concepts and services which match the needs and preferences of our customers. • Our integrated business model offers end-to-end customer services, from consultation and booking of holidays via flights with the Group's own airlines through to Group-owned or operated hotels, resorts and cruise ships. Integration thus facilitates the development and marketing of individual, tailored holiday offerings for customers which is difficult for competitors to replicate. • Building strong and lasting relationships with our key hotel partners, which further reinforces our ability to develop new concepts exclusive to the Group. • Focusing on being online throughout the whole of the customer journey – from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media.
D. INPUT COST VOLATILITY	
A significant proportion of operating expenses are in non-local currency and / or relate to aircraft fuel which therefore exposes the business to fluctuations in both exchange rates and fuel prices. There is the risk that if we do not manage adequately the volatility of exchange rates, fuel prices and other input costs, then this could result in increased costs and lead to margin erosion, impacting on our ability to achieve profit targets. There is also the risk that if our hedging policy is too rigid, we may find ourselves unable to respond to competitive pricing pressures during the season without it having a direct detrimental impact on our market position and / or profitability. Furthermore, changes in macroeconomic conditions can have an impact on exchange rates which, particularly for the £ / € rate and this year for the TRY / € rate, has a direct impact on the translation of non-euro market results into euros, the reporting currency of our Group.	• Ensuring that the appropriate derivative financial instruments are used to provide hedging cover for the underlying transactions involving fuel and foreign currency. • Maintaining an appropriate hedging policy to ensure that this hedging cover is taken out ahead of the markets' customer booking profiles. This provides a degree of certainty over input costs when planning pricing and capacity, whilst also allowing some flexibility in prices so as to be able to respond to competitive pressures if necessary. • Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies. • Expressing our key profit growth target in constant currency terms so that short term performance can be assessed without the distortion caused by exchange rate fluctuations. *Further information on currency and fuel hedges can be found in the Notes to the consolidated financial statements in the financial instruments section.*

Nature of Risk	Mitigating Factors
E. SEASONAL CASHFLOW PROFILE	
Tourism is an inherently seasonal business with the majority of profits earned in the European summer months. Cash flows are similarly seasonal with the cash high occurring in the summer as advance payments and final balances are received from customers, with the cash low occurring in the winter as liabilities have to be settled with many suppliers after the end of the summer season. There is the risk that if we do not adequately manage cash balances through the winter low period this could impact on the Group's liquidity and ability to settle liabilities as they fall due whilst ensuring that financial covenants are maintained.	• Our focus on holiday experiences is helping to reduce the seasonality risk, as hotels, cruises and destination experiences have a more evenly distributed profit and cash profile across the year. This is highlighted by the fact that the Group made an underlying operating profit for the second successive year over the nine months to 30 June. • As our business is spread across a number of markets, there are some counter-cyclical features e. g. winter is a more important season for the Nordic and Canadian markets. Some brands, such as the UK ski brand Crystal Ski, have a different seasonality profile which helps to counter-balance the overall profile. • The business regularly produces both short term and long term cash forecasts during the year, which the Treasury department use to manage cash resources effectively. • We have implemented a financial policy which has led to an improvement in our credit rating and makes it easier to maintain financing facilities at suitable levels. • Existing financing facilities are considered to be more than sufficient for our requirements and provide ample headroom. • We continue to maintain high-quality relationships with the Group's key financiers and monitor compliance with the covenants contained within our financing facilities. • Raising additional finance from the Capital Markets, should it be required, remains an option.
F. LEGAL & REGULATORY COMPLIANCE	
Most providers of holiday and travel services operate across a number of economies and jurisdictions, which therefore exposes them to a range of legal, tax and other regulatory laws which must be complied with. As we are operating from multiple source markets and providing holidays in more than 115 destinations, we are exposed to a range of laws and regulations with which we must comply or else risk incurring fines or other sanctions from regulatory bodies.	• Communication and strong tone from the top concerning compliance with laws and regulations. • Legal Compliance Committee established to ensure appropriate oversight, monitoring and action plans and to further drive the compliance culture across the Group. • Embedded legal and tax expertise in all major businesses responsible for maintaining high quality relationships with the relevant regulators and authorities. • Ongoing implementation and review of Compliance Management System conducted by the Group Legal Compliance department to monitor compliance with regulations and provide expert advice to local teams on specific compliance areas.

Nature of Risk	Mitigating Factors
G. HEALTH & SAFETY	
For all providers of holiday and travel services, ensuring the health and safety of customers is of paramount importance. This is especially so for us as we are one of world's leading tourism group selling holidays to over 27 m customers per annum. There is the risk of accidents or incidents occurring causing illness, injury or death to customers or colleagues whilst on a TUI holiday. This could result in reputational damage to the business and / or financial liabilities through legal action being taken by the affected parties.	• Health and safety functions are established in all businesses in order to ensure there is appropriate focus on health and safety processes as part of the normal course of business. • Ongoing monitoring is conducted by the Group Security, Health & Safety function to ensure compliance with minimum standards. • Appropriate insurance policies are in place for when incidents do occur.
H. SUPPLIER RELIANCE	
Providers of holiday and travel services are exposed to the inherent risk of failure in their key suppliers, particularly hotels. This is further heightened by the industry convention of paying in advance ('prepayments') to secure a level of room allocation for the season. There is the risk that we do not adequately manage our financial exposure should demand drop either for individual hotels and / or for the destination in which the hotels are located and to which the Group still has a level of prepayment outstanding which could result in financial losses.	• Owned and joint venture partner hotels form a substantial part of our program which reduces our inherent risk in this area. • A robust prepayment authorisation process is established and embedded to both limit the level of prepayments made and ensure that they are only paid to trusted, credit-worthy counterparties. • Where prepayments are made to external hoteliers, this is to secure access to unique and differentiated product for which demand is inherently higher and more resilient to external events than for commodity product. • Prepayments are monitored on a timely and sufficiently granular basis to manage our financial exposure to justifiable levels.
I. JOINT VENTURE PARTNERSHIPS	
It is common for tourism groups to use joint venture partnerships in some of their operations in order to reduce the risk of new ventures or to gain access to additional expertise. There are three significant joint ventures within the Group – Riu, TUI Cruises and Sunwing. There is the risk that if we do not maintain good relations with our key partners that the ventures' objectives may not remain consistent with that of the Group which could lead to operational difficulties and jeopardize the achievement of financial targets.	• Good working relationships exist with all of our main joint venture partners and they are fully aligned with and committed to the growth strategy of the Group.

Viability Statement

In accordance with provision C2.2 of the 2016 revision of the UK Corporate Governance Code, the Executive Board has assessed the prospect of the Company over a longer period than the twelve months required by the 'Going Concern' provision. The Executive Board considers annually and on a rolling-basis a three year strategic plan for the business, the latest was approved in October 2018 and covers the period to 30 September 2021. A three year horizon is considered appropriate for a fast-moving competitive environment such as tourism.

It is also noted that the Group's current €1,535.0 m revolving credit limit, which expires in July 2022, is used to manage the seasonality of the Group's cash flows and is reviewed on a timely basis. The three year plan considers cash flows as well as the financial covenants which the credit facility requires compliance with.

Key assumptions underpinning the three year plan and the associated cash flow forecast is that aircraft and cruise ship finance will continue to be readily available, and that the terms of the UK leaving the EU are such that all of our airlines continue to have access to EU airspace as now.

The Executive Board has conducted a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. Sensitivity analysis is applied to the cash flow to model the potential effects should certain principal risks actually occur, individually or in unison. This includes modelling the effects on the cash flow of significant disruption to a major destination in the summer season.

Taking account of the company's current position, principal risks and the aforementioned sensitivity analysis, the Executive Board has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three year period of the assessment.

Key features of the internal control and risk management system in relation to the (Group) accounting process (sections 289 (4) and 315 (2) no 5 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. All elements of TUI AG's consolidated financial statements, including the disclosures in the Notes, are developed from 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.

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 Groupwide 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 meas-urement 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 recognized 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 recognized 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.

OVERALL ASSESSMENT BY THE EXECUTIVE BOARD AND REPORT ON EXPECTED DEVELOPMENTS

Actual business performance 2018 compared with our forecast

Our business performance in FY 2018 matched our overall expectations.

At year-on-year growth of 6.3% on a constant currency basis, TUI Group's turnover exceeded expectations. We delivered consistently high occupancy rates and yields on a further expansion of our hotel and cruise portfolio. At the same time, the number of customers booking their holiday with us rose in all key source markets this summer, despite the prolonged phase of hot weather in Northern Europe.

In FY 2018 we delivered double-digit growth in our underlying EBITA on a constant currency basis for the fourth consecutive time since the merger. In the financial year under review, TUI Group's underlying EBITA improved by 4.1 % to € 1,147.0 m. On a constant currency basis for the reporting period and the prior year reference period, this equates to an improvement of 10.9 %. We have thus outperformed the guidance we communicated for FY 2017, which envisaged an increase in our operating result of at least 10 % on a constant currency basis.

The one-off charges adjusted for in our underlying EBITA were slightly higher than expected at €86.8m in the financial year under review. Overall the Group's EBITA thus improved by 3.3 % to € 1,060.2 m.

TUI Group's ROIC decreased by 0.57 percentage points to 23.04 % in FY 2017 while our plan assumed a slight increase. With the cost of capital at 6.37 %, this yields positive Economic Value Added of € 829.9 m (previous year € 787.0 m), in line with expectations.

The Group's net capex and financial investments remained below the target of around € 1.2 bn at € 827.0 m. This was primarily attributable to delays in larger hotel projects.

The net liquidity of € 123.6 m reported as at year-end 2018 developed slightly better than assumed in our most recent guidance, which had still expected a slight net debt. This was mainly due to the Group's lower net capex and financial investments.

Expected changes in the economic framework

Expected development of world output

Var. %	2019	2018
World	**+ 3.7**	**+ 3.7**
Eurozone	+ 1.9	+ 2.0
Germany	+ 1.9	+ 1.9
France	+ 1.6	+ 1.6
UK	+ 1.5	+ 1.4
US	+ 2.5	+ 2.9
Russia	+ 1.8	+ 1.7
Japan	+ 0.9	+ 1.1
China	+ 6.2	+ 6.6
India	+ 7.4	+ 7.3

Source: International Monetary Fund (IMF), World Economic Outlook, October 2018

MACROECONOMIC SITUATION

The steady expansion of the world economy continued in calendar year 2018. The International Monetary Fund expects world output to grow by 3.7 % in 2018, flat year-on-year. For 2019, the IMF expects the global economy to again grow by 3.7 % (IMF, World Economic Outlook, October 2018).

MARKET TREND IN TOURISM

UNWTO expects international tourism to continue growing globally during this decade. For the period from 2010 to 2020, average weighted growth of around 3.8 % per annum has been forecast (source: UNWTO, Tourism Highlights, 2018 edition). In the first six months of 2018, international arrivals grew by 6.1 %. UNWTO expects growth of 4 % to 5 % for the full calendar year 2018 (source: UNWTO, World Tourism Barometer, October 2018).

EFFECTS ON TUI GROUP

As one of world's leading tourism group, TUI Group depends on patterns in consumer demand in the large source markets in which we operate with our hotel, cruise and tour operator brands. Our budget is based on the assumptions used as a basis by the IMF to predict the future development of the global economy.

Apart from trends in consumer sentiment, political stability in the destinations is a further crucial factor affecting demand for holiday products. In our view, our business model is sufficiently flexible to compensate for the currently identifiable challenges.

The expected turnover growth assumed for our source markets in our budget for FY 2019 is in line with UNWTO's long-term forecast. Our strategic focus is to deliver further efficiency enhancements through the harmonisation of our three regional business segments, which are now operated under the unified TUI brand in all three regions.

Expected development of Group turnover and earnings

TUI GROUP

The translation of the income statements of foreign subsidiaries in our consolidated financial statements is based on average monthly exchange rates. TUI Group generates a considerable proportion of consolidated turnover and large earnings and cash flow contributions in non-euro currencies, in particular £, $ and SEK. Taking account of the seasonality in tourism, the value of these currencies against the euro in the course of the year therefore strongly impacts the financial indicators carried in TUI AG's consolidated financial statements. The comments on the expected development of our Group in FY 2019 provided below are based on an assumption of constant currencies for the completed FY 2018.

The key financial performance indicators for our earnings position in FY 2019 are Group turnover and underlying EBITA.

Definition of underlying EBITA see Value-oriented Group management on page 35

For a meaningful comparison at constant currency between expected earnings and our performance in the completed financial year, the reference figure for underlying EBITA in FY 2018 has been modified. The starting point for the forecast is the rebased underlying EBITA. This rebased figure was determined by the underlying EBITA of the FY 2018 increased to account for the negative effect of the revaluation of euro-denominated loans in Turkey amounting to € 40 m, translated at actual exchange rates in FY 2018.

Key management variables used for regular value analysis are Return On Invested Capital (ROIC) and Economic Value Added. ROIC is shown against the segment-specific cost of capital.

Future development depends on demand in our source markets and customer segments, input costs and the potential impact of exogenous events beyond our control such as strikes, terror attacks or natural disasters. Whilst these may influence results in the individual segments, we believe our balanced portfolio of markets and destinations still leaves us well placed to deliver the targets outlined below in FY 2019.

Expected development of Group turnover and underlying EBITA

€ million	2018	FX effects[3]	**2018 rebased[3]**	**2019[1]**
Turnover	19,524		19,524	around 3 % growth[2]
Underlying EBITA	1,147	40	1,187	at least 10 % growth
Adjustments	87			approx. € 125 m costs

[1] Variance year-on-year assuming constant foreign exchange rates are applied to the result in the current and prior period and based on the current group structure; guidance relates to continuing operations. For underlying EBITA the expected growth refers to the FY 2018 rebased number.
[2] Excluding cost inflation relating to currency movements
[3] Rebased to take into account € 40 m impact of revaluation of € loan balances in Turkey in FY 2018

TURNOVER

We expect turnover to grow by around 3 % in FY 2019 on a constant currency basis, excluding cost inflation relating to currency movements.

UNDERLYING EBITA

TUI Group's underlying EBITA in FY 2019 is expected to grow by at least 10 % versus the rebased prior-year value at constant currency. In order to determine the rebased previous year's value, the actual value for the previous year was increased by the effect of the revaluation of euro-denominated loans of Turkish hotel companies.

ADJUSTMENTS

In order to deliver further business harmonisation and efficiency in Markets & Airlines, we expect an elevated level of adjustments in FY 2019 of approximately € 125 m.

Details on Goals and Strategies from page 28
Details on Risks in Risk Report from page 40

ROIC AND ECONOMIC VALUE ADDED

We expect ROIC to reduce slightly in FY 2019. Due to the higher invested capital, Economic Value Added is expected to rise further, depending on the development of TUI Group's capital costs.

Development in the segments in FY 2019

HOTELS & RESORTS

In the Hotels & Resorts segment, we will continue to expand our portfolio of holiday destinations with a series of planned hotel openings in FY 2019 and beyond. We are thus on track to have opened around 60 additional hotels between the merger and the end of FY 2019. Overall, we expect the segment to deliver growth in underlying EBITA versus the rebased prior-year value at a level below the guidance for the Group of at least 10 % for FY 2019. In order to determine the rebased previous year's value, the actual value for the previous year was increased by the effect of the revaluation of euro-denominated loans of Turkish hotel companies.

CRUISES

In FY 2019, we will launch three ships for our cruise brands. Bookings for the new ships and the existing fleet continue to perform well. Overall, we therefore expect this segment to deliver growth in underlying EBITA of more than 10 % in FY 2019.

DESTINATION EXPERIENCES

With the acquisition of Destination Management and Musement, we have expanded our Destination Experiences segment from an offline business in 23 countries to a fully digitalised business in 49 countries. We are also developing our customised TUI Tours portfolio. Taking account of the related additional expenses required to expand the digital platforms, we expect this segment to deliver growth in underlying EBITA of more than 10 % in FY 2019.

MARKETS & AIRLINES

In our Markets & Airlines, we are focusing on the harmonisation of business workflows, in particular for processes, overheads and aviation, as well as the delivery of benefits from digitalisation. We expect the challenging market environment to continue. Its impact will primarily be felt in the first half of FY 2019. In FY 2019, we expect the Markets & Airlines to deliver growth in underlying EBITA which is broadly in line with Group guidance.

Expected development of financial position

For the development of the Group's financial position in FY 2019, we have defined the Group's net capital expenditure and investments and its leverage ratio as key performance indicators.

Expected development of Group financial position

	Expected development vs. PY	
	FY 2018	**FY 2019**
Net capex and investments	827.0	around € 1.0 – 1.2 bn
Leverage Ratio	2.7	3.00(x) – 2.25(x)

NET CAPEX AND INVESTMENTS

In the light of investment decisions already taken and projects in the pipeline, we expect TUI Group's net capex and financial investments to total around € 1.0 – 1.2 bn in FY 2019. This includes expected down payments on aircraft orders (excluding aircraft assets financed by debt or finance leases) and proceeds from the sale of fixed assets. Capex mainly relates to the launch of new production and booking systems for our markets, maintenance and expansion of our hotel portfolio and the acquisition of two cruise ships.

LEVERAGE RATIO

For FY 2019, we are aiming to deliver a leverage ratio of 3.00(x) to 2.25(x).

Sustainable development

CLIMATE PROTECTION AND EMISSIONS

We have identified specific CO_2 emissions (in g CO_2 / PKM) of our aircraft fleet as a key non-financial performance indicator. These emissions are to be reduced by 10 % by 2020. We also aim to reduce the carbon intensity of our global operations by 10 % by 2020 (against the baseline of 2014).

Overall Executive Board assessment of TUI Group's current situation and expected development

At the date of preparation of the Management Report (11 December 2018), we uphold our positive assessment of TUI Group's economic situation and guidance for FY 2019. With its finance profile, strong brand and services portfolio, TUI Group is well positioned in the market. In the first few weeks of the new FY 2019, overall business performance was slightly below previous year's level and has matched expectations.

TUI Group's underlying EBITA is to grow by at least 10 % in FY 2019 on a constant currency basis compared with the rebased prior-year level. In order to determine the rebased previous year's value, the actual value for the previous year was increased by the effect of the revaluation of euro-denominated loans of Turkish hotel companies.

Based on our growth strategy, we reiterate our guidance of at least 10 % CAGR in underlying EBITA for the three years to FY 2020.* Our long-term target for TUI Group's gross capex amounts 3.5 % of consolidated turnover.

* Based on constant currency growth, three year CAGR from FY 2017 base to FY 2020

Guidance for TUI AG

The future business performance of TUI AG is essentially subject to the same factors as those impacting TUI Group. Due to the business ties between TUI AG and its Group companies, the guidance, opportunities and risks presented for TUI Group are largely mirrored by expectations for TUI AG. The comments made for TUI Group therefore also apply to TUI AG.

Opportunity Report

TUI Group's opportunity management follows the Group strategy for core business Tourism. Responsibility for systematically identifying and taking up opportunities rests with the operational management of the Hotels & Resorts, Cruises and Destination Experiences segments as well as our source markets. Market scenarios and critical success factors for the individual sectors are analysed and assessed in the framework of the Group-wide planning and control process. The core task of the Group's Executive Board is to secure profitable growth for TUI Group by optimising the shareholding portfolio and developing the Group structure over the long term.

Overall, TUI Group is well positioned to benefit from opportunities resulting from the main trends in its markets.

OPPORTUNITIES FROM THE DEVELOPMENT OF THE OVERALL FRAMEWORK

Should the economy perform better than expected, TUI Group and its segments would benefit from the resulting increase in demand in the travel market. Moreover, changes in the competitive environment could create opportunities for TUI Group in individual markets.

CORPORATE STRATEGY

We see opportunities for further organic growth in particular by expanding our hotel portfolio, cruise business and the offering of our Destination Experiences segment. As market leader, we also intend to benefit in the long term from demographic change and the resulting expected increase in demand for high-quality travel at an attractive price / performance ratio.

OPERATIONAL OPPORTUNITIES

We intend to improve our competitive position further by offering unique product and further expanding controlled distribution in the source markets, in particular online distribution and via mobile devices. We also see operational opportunities arising from stronger integration of our Destination Experiences segment and tour operation business.

BUSINESS REVIEW

Macroeconomic industry and market framework

Macroeconomic development

World Output

Var. %	2018	2017
World	**+3.7**	**+3.7**
Eurozone	+2.0	+2.4
Germany	+1.9	+2.5
France	+1.6	+2.3
UK	+1.4	+1.7
US	+2.9	+2.2
Russia	+1.7	+1.5
Japan	+1.1	+1.7
China	+6.6	+6.9
India	+7.3	+6.7

Source: International Monetary Fund (IMF), World Economic Outlook, October 2018

In calendar year 2018, the global upswing in economic activity achieved the previous year's level. In its outlook (IMF, World Economic Outlook, October 2018), the International Monetary Fund projects global growth of 3.7% again for 2018. The outlook had been revised downwards in the course of the year and now reflects the growing downside risks, in particular the trade conflicts between the world's two largest economies, the United States and China.

Key exchange rates and commodity prices

Exchange rate US Dollar $/€

Exchange rate Sterling £/€

The exchange rate charts are presented on the basis of the indirect quotation format customary in the foreign exchange market. If the exchange rate falls, the foreign currency is appreciating against the euro. By contrast, if the exchange rate rises, the foreign currency is depreciating against the euro.

Oil price Brent ($ / Barrel)

TUI Group companies operate on a worldwide scale. This presents financial risks for TUI Group arising from changes in exchange rates and commodity prices. The essential financial transaction risks from operations concern euros and US dollars. They mainly result from foreign exchange items in the individual Group companies, for instance aircraft fuel and bunker oil invoices, ship handling costs or products and services sourced by hotels. The parity of sterling against the euro affects the translation of results generated in the UK market in TUI's consolidated financial statements. Following the UK vote for Brexit, the currency fluctuations continued, impacting the translation of results from our UK business.

At the beginning of the financial year under review, the exchange rate of sterling against the euro stood at 0.88 £ / €. After slight fluctuations in the course of the year, it returned to roughly the same level, marking 0.89 £ / € as at 30 September 2018. At 1.16 $ / € at year-end, the US dollar also returned to roughly the level recorded at the beginning of the financial year, when the rate was 1.17 $ / €.

Changes in commodity prices above all affect TUI Group when procuring fuels such as aircraft fuel and bunker oil. The price of Brent oil stood at $ 82.72 per barrel as at 30 September 2018, up by around 47.4 % year-on-year.

In Tourism, most risks relating to changes in exchange rates and price risks from fuel sourcing are hedged by derivatives. Information on hedging strategies and risk management as well as financial transactions and the scope of such transactions at the balance sheet date is provided in the sections Financial Position and Risk Report in the Management Report and the section Financial Instruments in the Notes to the consolidated financial statements.

Financial Position see page 75, Risk Report see page 50 and Financial Instruments see Notes page 225

Market environment and competition in Tourism

Since the merger between TUI AG and TUI Travel PLC in December 2014, TUI Group has been one of the world's leading leisure tourism business. The development of the international leisure tourism market impacts all businesses in TUI Group.

TOURISM REMAINS A STABLE GROWTH SECTOR

According to the United Nations World Tourism Organization (UNWTO), tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The key tourism indicators to measure market size are the number of international tourist arrivals and international tourism receipts. In 2017, international tourism receipts amounted to $ 1,340 bn. International arrivals grew to 1.32 bn, an increase of 7.0 %, the strongest growth since the financial crisis in 2009. International tourism arrivals are expected to grow by around 3.8 per cent per annum on average between 2010 and 2020. The tourism industry thus remains one of the most important sectors in the global economy: in terms of tourism exports (international tourism receipts plus passenger transport services), tourism ranks third worldwide (UNWTO Tourism Highlights, Edition 2018).

Change of international tourist arrivals vs. prior year

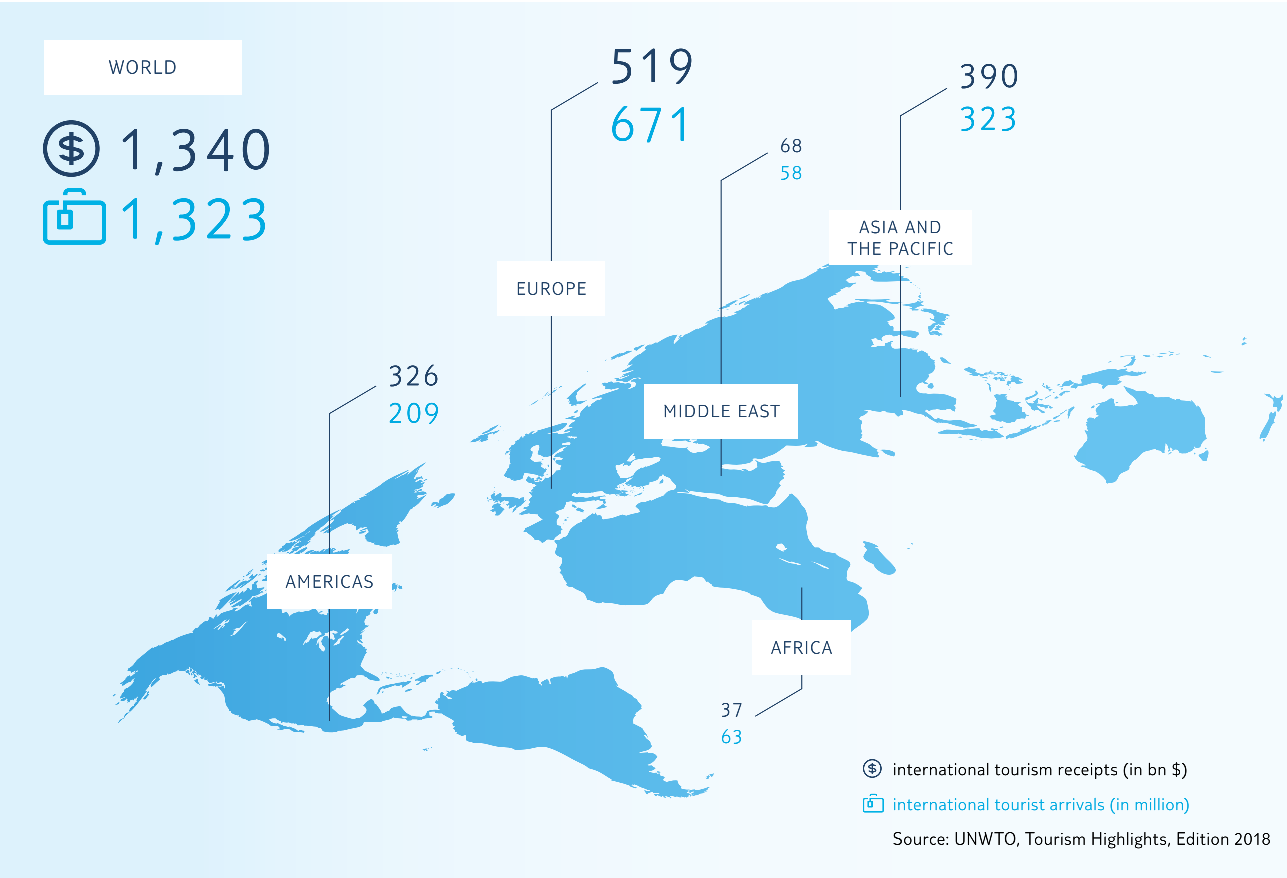
Var. %	**2018***	2017
World	**+ 6.1**	**+ 7.0**
Europe	+ 6.8	+ 8.4
Asia and the Pacific	+ 7.4	+ 5.6
Americas	+ 3.3	+ 4.8
Africa	+ 4.0	+ 8.6
Middle East	+ 4.6	+ 4.6

Source: UNWTO World Tourism Barometer, October 2018
* Period January till June

In the first half of calendar year 2018, the growth trend continued, with international tourist arrivals growing by 6.1 % worldwide during that period. Travel for holidays, recreation and other forms of leisure accounted for just over half of all international tourist arrivals (UNWTO, World Tourism Barometer, October 2018).

Segmental performance see from page 67

International tourist arrivals and receipts



Europe remained the largest and most mature tourism market in the world, accounting for 51 % of international tourist arrivals and 39 % of tourism receipts in 2017. Both indicators thus grew by 8 %. Five European countries – France, Spain, Italy, the United Kingdom and Germany – figured in the top ten international tourism destinations in 2017. Three of our main source markets – Germany, the UK and France – were in the top five of all source markets worldwide measured by international tourism receipts. The source markets display different levels of concentration. While the British market is characterised by two main players, TUI Travel and Thomas Cook, the German and French markets are more heavily fragmented.

HOTEL MARKET

The total worldwide hotel market for business and leisure travel was worth € 476 bn in 2017 (at constant currency). From 2017 to 2023, average annual growth (CAGR) is expected to amount to 3 % at constant 2017 prices (Euromonitor International Travel, October 2018). The hotel market is divided between business and leisure travel. A number of characteristics differentiate leisure travel hotels from business hotels, including longer average lengths of stay for guests in leisure hotels. Locations, amenities and service requirements also differ. From a demand perspective, the leisure hotel market in Europe is divided into several smaller submarkets which cater to the individual needs and preferences of tourists. These submarkets include premium, comfort, budget, family/apartment, and club or resort-style hotels. Hotel companies may offer a variety of hotels for different submarkets, often defined by price range, star ratings, exclusivity, or available facilities.

The upper end of the leisure hotel market is characterised by a high degree of sophistication and specialisation, with the assets managed by large international companies and investors. There are also many small, often family-run businesses, particularly in Europe, not quite so upscale and with fewer financial resources. Most family-owned and -operated businesses are not branded. Given the variety of models for owning and operating leisure hotels and the fragmented competition landscape which, at least in Europe, is not dominated by large hotel chains, conditions differ greatly between locations.

CRUISE MARKET

The global cruise industry will generate estimated revenues of around $45.6 bn in 2018, an increase of 4.6 % year-on-year. The global estimate suggests that altogether around 26 million guests will have undertaken an ocean cruise in calendar year 2018. The North American market (United States, Caribbean, Canada, Mexico) is by far the largest and most mature cruise market in the world, with approximately 14 million guests and a strong penetration rate of 3.7 % of the total population taking a cruise in 2017.

By contrast, the European cruise markets recorded approximately 6.8 million passengers, with penetration rates varying significantly from country to country, but considerably lower overall. Germany, the United Kingdom & Ireland and France are among the five largest cruise markets in Europe. Germany is Europe's largest cruise market, with 2.1 million passengers in 2018. At 2.7 %, its penetration rate was lower than in the United Kingdom & Ireland. The United Kingdom & Ireland is the second largest cruise market in Europe, with approximately 2.0 million cruise passengers and Europe's strongest penetration rate of 3.0 % in 2018. (Cruise Market Watch Website, www.cruisemarketwatch.com/market-share, October 2018; CLIA, Cruise Industry Ocean Source Market Report – Australia, 2018)

DESTINATION EXPERIENCES

The market for tours and activities in the destinations remains highly fragmented on the supplier side. More than 90 % of the around 300,000 companies are small providers with annual revenues of less than € 1 m, almost exclusively providing services to occasional customers. At global turnover of € 150 bn and annual growth of 7 %, the segment is one of the most attractive tourism areas. With the acquisition of the Italian tech start-up Musement in FY 2019 and of the Destination Management of Hotelbeds in the FY 2018, TUI Group has strengthened its position in the excursions, tours and activities business in the destinations. In future, the combination of a single customer platform and cutting-edge technology will enable the Group to present tailored offerings to its customers both before and during their holiday.

Brand

STRONG TUI MASTER BRAND

Our brand with the 'smile' – the smiling logo formed by the three letters of our brand name TUI – stands for a consistent customer experience, digital presence and competitive strength. The red smile is as well known as the logo of other leading brands. In order to further leverage the appeal and strength of our core brand and tap the associated growth potential, we have created a global branding and consistent brand experience in recent years. In 2018, TUI played in the Champions League of global brands in almost all markets. TUI is among the best-known travel brands in core European countries. The rollout of the TUI brand in the framework of the local rebranding in the past few years has been very successful. In FY 2018, the UK was the last source market to undergo rebranding to TUI when the large local tour operator Thomson was replaced by TUI – here, too, TUI already achieves an aided brand awareness level of 80 %.

Group earnings

Comments on the consolidated income statement

TUI Group's earnings position continued to show a positive development in FY 2018. The operating result (underlying EBITA) of TUI Group's continuing operations improved by 4.1 % to € 1,147.0 m in the period under review, or by 10.9 % year-on-year on a constant currency basis. This growth was driven in particular by the continued good operating performance in the Holiday Experiences segment.

Income Statement of the TUI Group
for the period from 1 Oct 2017 to 30 Sep 2018

€ million	2018	2017	Var. %
Turnover	**19,523.9**	**18,535.0**	**+5.3**
Cost of sales	17,542.4	16,535.5	+6.1
Gross profit	**1,981.5**	**1,999.5**	**–0.9**
Administrative expenses	1,289.9	1,255.8	+2.7
Other income	67.4	12.5	+439.2
Other expenses	3.5	1.9	+84.2
Financial income	83.8	229.3	–63.5
Financial expenses	165.5	156.2	+6.0
Share of result of joint ventures and associates	297.7	252.3	+18.0
Earnings before income taxes	**971.5**	**1,079.7**	**–10.0**
Income taxes	191.3	168.8	+13.3
Result from continuing operations	**780.2**	**910.9**	**–14.3**
Result from discontinued operations	38.7	–149.5	n. a.
Group profit	**818.9**	**761.4**	**+7.6**
Group profit attributable to shareholders of TUI AG	732.5	644.8	+13.6
Group profit attributable to non-controlling interest	86.4	116.6	–25.9

TURNOVER AND COST OF SALES

Turnover

€ million	2018	2017 restated	Var. %
Hotels & Resorts	606.8	679.0	–10.6
Cruises	901.9	815.0	+10.7
Destination Experiences	303.5	202.5	+49.9
Holiday Experiences	1,812.2	1,696.5	+6.8
Northern Region	6,854.9	6,601.5	+3.8
Central Region	6,563.7	6,039.5	+8.7
Western Region	3,577.6	3,502.2	+2.2
Markets & Airlines	16,996.2	16,143.2	+5.3
All other segments	715.5	695.3	+2.9
TUI Group	**19,523.9**	**18,535.0**	**+5.3**
TUI Group at constant currency	**19,701.5**	**18,535.0**	**+6.3**
Discontinued operations	–	829.0	n. a.
Total	**19,523.9**	**19,364.0**	**+0.8**

In FY 2018, turnover by TUI Group climbed by 5.3 % to € 19.5 bn. On a constant currency basis, turnover grew by 6.3 %. Alongside a year-on-year increase in customer numbers of 4.7 % in the source markets, capacity increases in the Cruises segment, higher average prices in the Hotels & Resorts segment and higher prices in the UK contributed to the turnover growth. Turnover is presented alongside the cost of sales, which was up 6.1 % in the period under review.

GROSS PROFIT

Gross profit, i. e. the difference between turnover and the cost of sales, was flat year-on-year at around € 2.0 bn.

ADMINISTRATIVE EXPENSES

Administrative expenses rose by € 34.1 m year-on-year to € 1,289.9 m, above all due to higher personnel and IT costs.

FINANCIAL RESULT

The financial result declined by € 154.8 m to € – 81.7 m. The decrease was essentially due to the profit of € 172.4 m generated in the prior year from the disposal of the remaining stake in Hapag-Lloyd AG.

SHARE OF RESULTS OF JOINT VENTURES AND ASSOCIATES

The result from joint ventures and associates comprises the proportionate net profit for the year of these companies measured at equity and where appropriate impairments of goodwill for these companies. In the period under review, the at equity result totalled € 297.7 m. The significant increase of € 45.4 m mainly resulted from a higher profit contribution by TUI Cruises.

RESULT FROM CONTINUING OPERATIONS

The result from continuing operations declined by € 130.7 m to € 780.2 m in FY 2018.

RESULT FROM DISCONTINUING OPERATIONS

The sale of Hotelbeds Group in 2016 had included a turnover guarantee for the benefit of the buyer. On the basis of the turnover generated by Hotelbeds Group with TUI Group in prior periods, the other liability formed for the sale of Hotelbeds Group was revalued and reduced by €41.4 m. The other items refer to the Specialist Group sold in FY 2017.

GROUP PROFIT

Group profit increased by €57.5 m year-on-year to €818.9 m in FY 2018.

SHARE IN GROUP PROFIT ATTRIBUTABLE TO TUI AG SHAREHOLDERS

The share in Group profit attributable to the TUI AG shareholders increased from €644.8 m in the prior year to €732.5 m in FY 2018. Alongside a sound operating performance, the increase is accounted for by the profit share attributable to Travelopia in the prior year.

NON-CONTROLLING INTERESTS

Non-controlling interests in Group profit for the year totalled €86.4 m. They mainly related to RIUSA II Group.

EARNINGS PER SHARE

The interest in Group profit for the year attributable to TUI AG shareholders after deduction of non-controlling interests totalled €732.5 m in FY 2018 (previous year €644.8 m). Basic earnings per share therefore amounted to €1.25 (previous year €1.10) in FY 2018.

ALTERNATIVE PERFORMANCE INDICATORS

Key indicators used to manage the TUI Group are EBITA and underlying EBITA. EBITA comprises earnings before interest, taxes and goodwill impairments. EBITA includes amortisation of other intangible assets. It does not include the result from the measurement of interest hedges, and in the prior year did not include results from container shipping operations.

The table below shows the reconciliation of earnings before tax from continuing operations to underlying EBITA.

Reconciliation to underlying earnings (continuing operations)

€ million	**2018**	2017	Var. %
Earnings before income taxes	**971.5**	**1,079.7**	**–10.0**
plus: Profit on sale of financial investment in Container Shipping	–	–172.4	n. a.
plus: Net Interest expense	82.3	113.5	–27.5
plus: Expense from the measurement of interest hedges	6.4	5.7	+12.3
EBITA	**1,060.2**	**1,026.5**	**+3.3**
Adjustments:			
less: Gain on disposals	–2.1	–2.2	+4.5
plus: Restructuring expense	34.9	23.1	+51.1
plus: Expense from purchase price allocation	31.8	29.2	+8.9
plus: Expense (prior year income) from other one-off items	22.2	25.5	–12.9
Underlying EBITA	**1,147.0**	**1,102.1**	**+4.1**

The reported earnings (EBITA) of TUI Group rose by € 33.7 m to € 1,060.2 m due to a sound operating performance in FY 2018.

EBITA

€ million	**2018**	2017 restated	Var. %
Hotels & Resorts	425.6	353.7	+ 20.3
Cruises	324.0	255.6	+ 26.8
Destination Experiences	43.1	32.6	+ 32.6
Holiday Experiences	792.7	641.9	+ 23.5
Northern Region	221.2	309.6	– 28.6
Central Region	72.5	67.3	+7.7
Western Region	85.1	79.4	+7.2
Markets & Airlines	378.8	456.3	–17.0
All other segments	–111.3	–71.7	– 55.4
TUI Group	**1,060.2**	**1,026.5**	**+ 3.3**
TUI Group at constant currency	**1,133.4**	**1,026.5**	**+10.4**
Discontinued operations	38.7	– 22.1	n. a.
Total	**1,098.9**	**1,004.4**	**+ 9.4**

In order to explain and evaluate the operating performance of the segments, earnings adjusted for special one-off effects (underlying EBITA) are presented below. Underlying EBITA has been adjusted for gains on disposal of financial investments, restructuring expenses according to IAS 37, all effects from purchase price allocations, ancillary acquisition costs and conditional purchase price payments and other expenses for and income from one-off items.

One-off items carried here include adjustments for income and expense items that reflect amounts and frequencies of occurrence rendering an evaluation of the operating profitability of the segments and the Group more difficult or causing distortions. These items include in particular major restructuring and integration expenses not meeting the criteria of IAS 37, material expenses for litigation, gains and losses from the sale of aircraft and other material business transactions with a one-off character.

TUI Group's underlying EBITA improved by € 44.9 m to € 1,147.0 m in FY 2018.

Underlying EBITA

€ million	**2018**	2017 restated	Var. %
Hotels & Resorts	425.7	356.5	+19.4
Cruises	324.0	255.6	+ 26.8
Destination Experiences	44.7	35.1	+ 27.4
Holiday Experiences	794.4	647.2	+ 22.7
Northern Region	254.1	345.8	– 26.5
Central Region	89.1	71.5	+ 24.6
Western Region	109.3	109.2	+ 0.1
Markets & Airlines	452.5	526.5	–14.1
All other segments	– 99.9	–71.6	– 39.5
TUI Group	**1,147.0**	**1,102.1**	**+ 4.1**
TUI Group at constant currency	**1,221.7**	**1,102.1**	**+10.9**
Discontinued operations	–	–1.2	n. a.
Total	**1,147.0**	**1,100.9**	**+ 4.2**

In FY 2018, adjustments worth € 12.5 m were carried for the reduction in pension obligations in the UK and the sale of aircraft assets. On the other hand, expenses of € 31.8 m were incurred for purchase price allocations, and other underlying expenses amounted to € 67.5 m. They mainly related to the following items and circumstances:

GAINS ON DISPOSAL

In FY 2018, gains on disposal of financial assets worth € 2 m had to be adjusted for. They related in particular to the measurement of a stake in the framework of the takeover of Destination Management from Hotelbeds Group.

RESTRUCTURING COSTS

In FY 2018, restructuring costs of € 35 m had to be adjusted for. They included an amount of around € 13 m for the realignment of the aviation business in the Nordics. Adjustments also included expenses worth around € 9 m for restructurings at TUI fly in Germany and around € 10 m for the integration of Transat in France.

EXPENSES FOR PURCHASE PRICE ALLOCATIONS

Expenses for purchase price allocations related in particular to scheduled amortisation of intangible assets from acquisitions made in previous years.

ONE-OFF ITEMS

Net expenses for one-off items of € 22 m included in particular an amount of € 6 m relating to IT projects in Northern and Western Regions. Further expenses worth € 15 m related to reorganisation schemes in regions and destination agencies.

OTHER SEGMENT INDICATORS

Reconciliation to EBITDAR (continuing operations)

€ million	2018	2017	Var. %
EBITA	**1,060.2**	**1,026.5**	**+3.3**
Amortisation (+)/write-backs (–) of other intangible assets and depreciation (+)/write-backs (–) of property, plant and equipment	438.3	464.4	–5.6
EBITDA	**1,498.5**	**1,490.9**	**+0.5**
Long-term rental, leasing and leasing expenses	721.4	750.0	–3.8
EBITDAR	**2,219.9**	**2,240.9**	**–0.9**

EBITDA and underlying EBITDA

	EBITDA			Underlying EBITDA*		
€ million	2018	2017 restated	Var. %	2018	2017 restated	Var. %
Hotels & Resorts	524.3	484.5	+8.2	**524.5**	485.2	+8.1
Cruises	398.3	312.9	+27.3	**398.3**	312.9	+27.3
Destination Experiences	52.1	40.4	+29.0	**53.6**	42.9	+24.9
Holiday Experiences	974.7	837.8	+16.3	**976.4**	841.0	+16.1
Northern Region	281.7	378.6	–25.6	**302.8**	402.7	–24.8
Central Region	95.3	87.6	+8.8	**109.8**	89.8	+22.3
Western Region	107.8	102.0	+5.7	**127.6**	126.8	+0.6
Markets & Airlines	484.8	568.2	–14.7	540.2	619.3	–12.8
All other segments	39.0	84.9	–54.1	**47.3**	81.4	–41.9
TUI Group	**1,498.5**	**1,490.9**	**+0.5**	**1,563.9**	**1,541.7**	**+1.4**
Discontinued operations	38.7	–22.1	n.a.	**–**	–1.2	n.a.
Total	**1,537.2**	**1,468.8**	**+4.7**	1,563.9	**1,540.5**	**+1.5**

* Adjustments according to reconciliation from page 65, excluding amortisation and write-backs.

Segmental performance

Outlook

In FY 2018 we delivered the fourth consecutive year of double digit growth of underlying EBITA at constant currency rates since the merger, with a continued strong ROIC performance. TUI's sustained strong performance in a challenging market environment demonstrates its successful transformation as an integrated provider of holiday experiences, with strong strategic positioning and diversification across destinations and markets. Looking ahead, we expect growth to continue the benefits of our digitalisation efforts, efficiency measures and differentiation strategy through the disciplined expansion of our own hotel, cruise and destination experience content.

In Hotels & Resorts, our diversified portfolio means we will continue to benefit from growth in demand for Turkey and North Africa, with a normalisation in demand for Spain, including the Canaries. Demand also remains strong for our year round destinations such as Mexico and Cape Verde. We will continue to develop our portfolio of destinations, with a strong pipeline of own hotel openings for FY 2019 and beyond, and we remain on track to open approximately 60 additional hotels since merger by the end of FY 2019.

We will also launch three ships for our cruise brands in FY 2019. Bookings for the new ships and the existing fleet are progressing well, with a continued strong yield performance. Two ships exited our fleets (Marella Spirit and Hapag-Lloyd Cruises' Hanseatic) in Autumn 2018. Five further new builds are on order for TUI Cruises and Hapag-Lloyd Cruises, for delivery between FY 2020 and FY 2026, as we continue to build on our leadership position in the German-speaking cruise market.

We are re-shaping our Destination Experiences business based on the recent acquisitions of Destination Management and Musement, from an off-line to fully digitalised business in 49 countries. We are also developing our tailored TUI Tours offer. In order to achieve these strategic goals, some additional investment into the digital platform (as operating cost) will be required in FY 2019.

In Markets & Airlines, we are focussed on delivering business harmonisation, especially in terms of business processes, overheads and aviation, and the benefits of digitalisation. We expect the challenging market environment to continue, and that this will be evident in our Q1 / Q2 FY 2019 results. This reinforces the importance of TUI's transformation away from the traditional tour operator space, to become an integrated provider of holiday experiences, and which helps to mitigate continued market challenges. Currently Winter 2018 / 19 bookings are down 1 % and average selling prices are down 2 % versus prior year, with 60 % of the programme sold, 2 percentage points behind prior year*. As outlined above, the programme to North Africa and Turkey has been expanded, offset by a reduction in the programme to the Canaries. Flight capacity from Nordics has been proactively reduced, with the planned closure of three airport bases as we continue to drive efficiency in our airlines, and also following the prolonged hot weather this Summer which has continued to subdue demand. We have also reduced our flight capacity from Germany, as we continue to improve our flight plan efficiency following the bankruptcies of Air Berlin and Niki. Bookings for next Summer 2019 are at a very early stage. Only the UK is more than 20 % booked, and at this stage bookings are up 5 % with average selling price down 1 %.

* These statistics are up to 2 December 2018, shown on a constant currency basis and relate to all customers whether risk or non-risk

Disclosures on outlook are regularly published on TUI's website in the framework of TUI Group's quarterly reporting.

⊕ *See www.tuigroup.com/en-en/investors*

Holiday Experiences

Holiday Experiences

€ million	**2018**	2017	Var. %
Turnover	1,812.2	1,696.5	+ 6.8
Underlying EBITA	794.4	647.2	+ 22.7
Underlying EBITA at constant currency	866.0	647.2	+ 33.8

Hotels & Resorts

€ million	**2018**	2017 restated	Var. %
Total turnover	1,389.7	1,366.2	+ 1.7
Turnover	606.8	679.0	– 10.6
Underlying EBITA	425.7	356.5	+ 19.4
Underlying EBITA at constant currency	494.5	356.5	+ 38.7
Capacity hotels total[1] in '000	**39,428**	**39,163**	**+ 0.7**
Riu	17,503	17,942	– 2.4
Robinson	3,095	3,115	– 0.6
Blue Diamond	3,638	2,859	+ 27.3
Occupancy rate hotels total[2] in %, variance in % points	**83**	**79**	**+ 4**
Riu	89	90	– 1
Robinson	71	66	+ 5
Blue Diamond	80	83	– 3
Average revenue per bed hotels total[3] in €	**65**	**63**	**+ 2.0**
Riu	64	64	+ 0.2
Robinson	93	91	+ 2.6
Blue Diamond	127	112	+ 12.8

Turnover measures include fully consolidated companies, all other KPIs incl. companies measured at equity.
[1] Group owned or leased hotel beds multiplied by opening days per quarter
[2] Occupied beds divided by capacity
[3] Arrangement revenue divided by occupied beds
[4] Previous year's total capacity now includes Blue Diamond

- Our leading leisure hotel and club brands delivered another strong performance in FY 2018, with € 138 m increase in underlying EBITA at constant currency (including € 43 m net gains on hotel disposals by Riu). Occupancy rate increased to 83 % and average rate per bed by 2 %. ROIC increased for the fourth successive year to 14.5 % (versus Hotels & Resorts WACC of 7.86 %), demonstrating the attractiveness of our portfolio of hotel and club brands across multiple destinations, the benefit of having high levels of our own distribution, and our disciplined approach to investment.

- The underlying EBITA result at FY 2018 exchange rates includes an adverse foreign exchange impact of € 69 m, € 40 m of which is the non-cash impact from the revaluation of Euro loan balances within Turkish hotel entities, as a result of the weaker Turkish Lira.
- The Hotels & Resorts portfolio strategy continued to pay off in FY 2018. The increase in earnings was driven by a rebalance in demand for Turkey and North Africa, as well as strong demand for Greece and continued high demand for the Caribbean. Spain remains one of our key destinations, but with more normal levels of demand following a couple of years of very high performance.
- The industry-leading occupancy rate demonstrates the strength and popularity of our portfolio of brands and destinations, as well as the success of the integrated model with a significant proportion of rooms distributed directly by us, either through our Markets or by the hotels themselves.
- We continued to deliver our growth strategy in Hotels & Resorts, having opened a total of 44 new hotels since merger. Hotels and clubs were opened in Zanzibar, Mexico, Maldives, Thailand, Dominican Republic, Tunisia, Egypt, Greece and Cyprus. We also continued to streamline our portfolio, with several repositionings and the disposal of properties by Riu generating € 43 m net gain on disposal.
- Our key brands continued to perform very well. Riu delivered another strong earnings and ROIC performance in FY 2018, with a very high occupancy rate of 89 % and sustained average rate per bed, as well as the benefit of the disposal gains outlined above. Robinson delivered growth in earnings, with improved performance in its Turkish and North African hotels partly offset by the planned closure of certain clubs for renovation. Blue Diamond earnings increased as a result of hotel openings in the Caribbean, with a continued high level of occupancy despite these new openings.
- Underlying EBITA at constant currency in our other hotel brands grew significantly, driven by a stronger performance in our Turkish and North African hotels.

Cruises

€ million	**2018**	2017	Var. %
Turnover[1]	901.9	815.0	+10.7
Underlying EBITA	324.0	255.6	+26.8
Underlying EBITA at constant currency	324.6	255.6	+27.0
Occupany in %, variance in % points			
TUI Cruises	100.8	101.9	–1.1
Marella Cruises[2]	100.9	101.7	–0.8
Hapag-Lloyd Cruises	78.3	76.7	+1.6
Passenger days in '000			
TUI Cruises	5,194	4,483	+15.9
Marella Cruises[2]	2,953	2,720	+8.6
Hapag-Lloyd Cruises	352	349	+0.9
Average daily rates[3] in €			
TUI Cruises	178	173	+2.9
Marella Cruises[2, 4] in £	141	131	+7.6
Hapag-Lloyd Cruises	615	594	+3.5

1 No turnover is carried for TUI Cruises as the joint venture is consolidated at equity
2 Rebranded from Thomson Cruises in October 2017.
3 Per day and passenger
4 Inclusive of transfers, flights and hotels due to the integrated nature of Marella Cruises.

- Our leading German and UK cruise brands delivered another year of strong growth in FY 2018, with € 69 m growth in underlying EBITA at constant currency. This was driven by new ship launches in Germany and UK, with continued high occupancy and average daily rates across the fleets. Overall, the segment delivered a record ROIC performance of 22.8 % (versus Cruises WACC of 6.16 %), reflecting the return on equity in the high-performing TUI Cruises as well as strong performances by our Marella Cruises and Hapag-Lloyd Cruises subsidiaries.
- TUI Cruises (our joint venture with Royal Caribbean in the German speaking market) benefitted from the first Winter 2017 / 18 of operations for Mein Schiff 6 and launched the New Mein Schiff 1 in May 2018. The fleet also benefitted from fewer dry dock days in FY 2018. Average daily rate increased versus prior year, driven by the sustained growth in demand for cruise in Germany (which remains a market with relatively low rates of cruise penetration), and in particular high demand for our German language, premium all-inclusive product.
- Marella Cruises (our UK cruise brand) delivered the first Winter of operations for the Marella Discovery 2 and launched Marella Explorer (previously Mein Schiff 1 in TUI Cruises) in May. The older style Marella Majesty exited the fleet in October 2017. Average daily rate increased versus prior year, as we continue to deliver our modernisation programme and expansion in line with the UK cruise market.

- Hapag-Lloyd Cruises (our luxury and expedition brand) delivered a strong performance and an increase in earnings, with increased occupancy and average daily rate and a good operational performance offsetting the higher number of dry dock days.

Destination Experiences

€ million	2018	2017	Var. %
Total turnover	594.1	444.8	+33.6
Turnover	303.5	202.5	+49.9
Underlying EBITA	44.7	35.1	+27.4
Underlying EBITA at constant currency	46.9	35.1	+33.6

- Our tours, activities and service provider in destination delivered a significant increase in underlying EBITA in FY 2018. This was driven by higher customer volumes in Turkey, Greece and North Africa, efficiencies in Spain, Portugal and Greece, and the inclusion of earnings of Destination Management following completion of the acquisition from Hotelbeds in August 2018.
- Excluding the acquisition of Destination Management, underlying EBITA at constant currency grew by 20 % in FY 2018.
- The acquisition of technology start-up Musement, a leading online platform for tours and activities in destination, was also completed in October 2018. Together with the Destination Management acquisition, this will enable us to grow our Destination Experiences as a fully digitalised provider with destination product offerings in 49 countries.

Markets & Airlines (formerly Sales & Marketing)

Markets & Airlines

€ million	2018	2017	Var. %
Turnover	16,996.2	16,143.2	+5.3
Underlying EBITA	452.5	526.5	–14.1
Underlying EBITA at constant currency	449.8	526.5	–14.6
Net Promoter Score (NPS)[1] in %, variance in % points	50	50	–
Direct distribution[2] in %, variance in % points	74	73	+1
Online distribution[3] in %, variance in % points	48	46	+2
Customers in '000	21,127	20,183	+4.7

[1] NPS is measured in customer satisfaction questionnaires completed post-holiday. It is based on the question 'On a scale of 0 to 10 where 10 is extremely likely and 0 ist not at all likely, how likely is it that you would recommend the brand to a friend, colleague or relative?" and is calculated by taking the percentage of promoters (9s and 10s) less the percentage of detractors (0s through 6s).
[2] Share of sales via own channels (retail and online)
[3] Share of online sales

- Markets & Airlines are leaders in packaged distribution and fulfillment, leveraging their strong market and customer knowledge. Against a backdrop of significant and unforseen external challenges – namely, the Summer heatwave and airline disruption – several of our major source markets delivered significant growth in earnings, offset by currency inflation in the UK. Overall Markets & Airlines delivered 4.7 % increase in customer volumes with another year of increased direct and online distribution. Net promoter scores remain high at 50, demonstrating the strength of our customer offer and focus on their holiday experience.
- We are focused on delivering further efficiency improvements through the harmonisation of our three regional businesses, as well as the benefits of digitalisation. Having successfully delivered the TUI rebranding in all of Markets & Airlines, we now have one leadership covering all regions, and have identified further potential for harmonisation in business processes and overheads. In addition, we will continue to expand the synergies from One Aviation.

Northern Region

€ million	**2018**	2017	Var. %
Turnover	6,854.9	6,601.5	+3.8
Underlying EBITA	254.1	345.8	–26.5
Underlying EBITA at constant currency	251.1	345.8	–27.4
Direct distribution[1] in %, variance in % points	93	92	+1
Online distribution[2] in %, variance in % points	66	63	+3
Customers in '000	7,566	7,389	+2.4

[1] Share of sales via own channels (retails and online)
[2] Share of online sales

Northern Region comprises UK, Nordics and joint ventures in Canada and Russia.

- In the UK, the TUI rebrand was delivered successfully in FY 2018, as well as another year of growth in revenues and customer volumes (up 2.3 %). Despite a further increase in average selling price, margins reduced as a result of currency inflation due to the weaker Pound Sterling. In addition, the Summer heatwave and French air traffic control strikes had a negative impact on margin. Going forward, the UK is well positioned as a clear market leader for package holidays, with a high net promoter score for its unique holidays, high level of direct and online distribution, and strong degree of business efficiency and integration.
- Nordics delivered an increase in revenues, customer volumes (up 2.6 %) and earnings in FY 2018, driven by a strong Winter performance. Summer trading started well, however the prolonged heatwave led to an adverse impact on yield and customer volumes, resulting in a more subdued performance in the second half of the year. At the end of the year, as part of the drive for greater efficiency in aviation, the business announced plans to move short-haul air operations to external airlines at three bases in Scandanavia.
- Underlying EBITA at constant currency rates in Canada increased in FY 2018 as the business continues to deliver growth, with high levels of sales of Group hotels such as Blue Diamond and Riu. In Russia, TUI's equity participation was reduced in FY 2019 to 10 %.

Central Region

€ million	**2018**	2017	Var. %
Turnover	6,563.7	6,039.5	+8.7
Underlying EBITA	89.1	71.5	+24.6
Underlying EBITA at constant currency	89.4	71.5	+25.0
Direct distribution[1] in %, variance in % points	50	49	+1
Online distribution[2] in %, variance in % points	22	19	+3
Customers in '000	7,707	7,151	+7.8

[1] Share of sales via own channels (retails and online)
[2] Share of online sales

Central Region comprises Germany and Austria (operated as one source market), Switzerland and Poland.

- Germany and Austria delivered 2.9 % increase in customer volumes in FY 2018, driven in particular by strong demand for Turkey, North Africa and Greece. We delivered good progress on our strategy of increasing the proportion of holidays sold direct and online, to 50 % and 22 % respectively. The result also benefitted from the non-repeat of last year's sickness event in TUI fly which was largely offset by the impact of the Niki bankruptcy this year. However, as seen in our other source markets, the strong demand in Winter and at the start of the Summer become more subdued as a result of the heatwave. In addition, there was a significant increase in capacity on leisure routes this Summer due to aircraft redeployment following the Air Berlin bankruptcy which impacted margins, especially to Spain.
- Switzerland and Poland continued to deliver good performances, with an increase in customer volumes and earnings.
- The Central Region result has been impacted over the past two years by the insolvencies of Air Berlin and Niki, to whom TUI fly (our German airline) wet leased a number of aircraft. As a result, earnings were adversely impacted in FY 2017 and FY 2018. Following the insolvencies, TUI fly took back some of the aircraft and crew (previously operated under wet lease to Air Berlin and Niki), with the remainder being wet leased out under a new (albeit less profitable) agreement.

Western Region

€ million	**2018**	2017	Var. %
Turnover	3,577.6	3,502.2	+ 2.2
Underlying EBITA	109.3	109.2	+ 0.1
Underlying EBITA at constant currency	109.3	109.2	+ 0.1
Direct distribution[1] in %, variance in % points	73	71	+ 2
Online distribution[2] in %, variance in % points	55	54	+ 1
Customers in '000	5,854	5,643	+ 3.7

[1] Share of sales via own channels (retails and online)
[2] Share of online sales

Western Region comprises Belgium, Netherlands and France.

- Our market leaders in Belgium and Netherlands continued to grow customer volumes, by 6.8 % in total, with good margins overall and increasing levels of direct and online distribution. Similar to other markets, there was a relatively high level of airline disruption during the early Summer.
- France's performance was disappointing in FY 2018. The trading environment was very difficult, particularly as a result of the Summer heatwave which impacted on demand, due to the large number of domestic alternatives and overcapacity in the market.

The result has benefitted from the delivery of further cost synergies from the Transat integration, however, this was not enough to offset the challenging trading environment. In addition, further investment was required to launch the TUI brand in the French market at the start of the year.

All other segments

All other segments

€ million	**2018**	2017 restated	Var. %
Turnover	715.5	695.3	+ 2.9
Underlying EBITA	– 99.9	–71.6	– 39.5
Underlying EBITA at constant currency	– 94.1	–71.6	– 31.4

This segment comprises the business operations for new markets, the scheduled French airline Corsair, and the central corporate functions and interim holdings of TUI Group and the Group's real estate companies. The increase in operating loss was driven by Corsair, partly as the result of a planned airline maintenance event at the start of the year, and partly due to an aircraft towing incident in Q4.

Net assets

Development of the Group's asset structure

€ million	30 Sep 2018	30 Sep 2017	Var. %
Fixed assets	9,918.6	9,067.0	+ 9.4
Non-current receivables	763.5	800.6	– 4.6
Non-current assets	10,682.1	9,867.6	+ 8.3
Inventories	118.5	110.2	+7.5
Current receivables	2,257.7	1,682.0	+ 34.2
Cash and cash equivalents	2,548.0	2,516.1	+1.3
Assets held for sale	5.5	9.6	– 42.7
Current assets	4,929.7	4,317.9	+14.2
Assets	**15,611.8**	**14,185.5**	**+10.1**
Equity	4,333.6	3,533.7	+ 22.6
Liabilities	11,278.2	10,651.8	+ 5.9
Equity and liabilities	**15,611.8**	**14,185.5**	**+10.1**

The Group's balance sheet total increased by 10.1 % as against 30 September 2017 to € 15.6 bn.

Vertical structural indicators

Non-current assets accounted for 68.4 % of total assets, compared with 69.6 % in the previous year. The capitalisation ratio (ratio of fixed assets to total assets) decreased from 63.9 % to 63.5 %.

Current assets accounted for 31.6 % of total assets, compared with 30.4 % in the previous year. The Group's cash and cash equivalents increased by € 31.9 m year-on-year to € 2,548.0 m. They thus accounted for 16.3 % of total assets, as against 17.7 % in the previous year.

Horizontal structural indicators

At the balance sheet date, the ratio of equity to non-current assets was 40.6 %, as against 35.8 % in the previous year. The ratio of equity to fixed assets was 43.7 % (previous year 39.0 %). The ratio of equity plus non-current financial liabilities to fixed assets was 66.4 %, compared with 58.4 % in the previous year.

Development of the Group's non-current assets

Structure of the Group's non-current assets

€ million	30 Sep 2018	30 Sep 2017	Var. %
Goodwill	2,958.6	2,889.5	+ 2.4
Other intangible assets	569.9	548.1	+ 4.0
Property, plant and equipment	4,899.2	4,253.7	+15.2
Companies measured at equity	1,436.6	1,306.2	+10.0
Financial assets available for sale	54.3	69.5	– 21.9
Fixed assets	9,918.6	9,067.0	+ 9.4
Receivables and assets	537.8	476.9	+12.8
Deferred tax claims	225.7	323.7	– 30.3
Non-current receivables	763.5	800.6	– 4.6
Non-current assets	**10,682.1**	**9,867.6**	**+ 8.3**

GOODWILL

Goodwill rose by € 69.1 m to € 2,958.6 m. The increase in the carrying amount is essentially due to the acquisition of the Destination Management business. An opposite effect was driven by the translation of goodwill not managed in TUI Group's functional currency into euros. In the period under review, no adjustments were required as a result of impairment tests.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment increased to € 4,899.2 m in the financial year under review, primarily driven by the acquisition of the cruise ship Marella Explorer, investments in hotel facilities, down payments on aircraft orders and the delivery of aircraft. Property, plant and equipment also comprised leased assets in which Group companies held economic ownership. At the balance sheet date, these finance leases had a carrying amount of € 1,290.2 m, up 11.4 % year-on-year.

Development of property, plant and equipment

€ million	30 Sep 2018	30 Sep 2017	Var. %
Real estate with hotels	1,262.8	1,040.8	+21.3
Other land	194.1	165.1	+17.6
Aircraft	1,415.1	1,207.2	+17.2
Ships	995.2	860.1	+15.7
Machinery and fixtures	407.9	361.2	+12.9
Assets under construction, payments on accounts	624.1	619.3	+0.8
Total	**4,899.2**	**4,253.7**	**+15.2**

COMPANIES MEASURED AT EQUITY

Seventeen associated companies and 27 joint ventures were measured at equity. At €1,436.6 m, their value increased by 10.0 % year-on-year as at the balance sheet date.

Development of the Group's current assets

Structure of the Group's current assets

€ million	30 Sep 2018	30 Sep 2017	Var. %
Inventories	118.5	110.2	+7.5
Trade accounts receivable and other assets*	2,143.9	1,583.3	+35.4
Current tax assets	113.8	98.7	+15.3
Current receivables	2,257.7	1,682.0	+34.2
Cash and cash equivalents	2,548.0	2,516.1	+1.3
Assets held for sale	5.5	9.6	– 42.7
Current assets	**4,929.7**	**4,317.9**	**+14.2**

* incl. receivables from derivative financial instruments and touristic prepayments

CURRENT RECEIVABLES

Current receivables comprise trade accounts receivable and other receivables, current income tax assets and claims from derivative financial instruments. At €2,257.7 m, current receivables increased by 34.2 % year-on-year.

CASH AND CASH EQUIVALENTS

At €2,548.0 m, cash and cash equivalents increased by 1.3 % year-on-year.

Unrecognised assets

In the course of their business operations, Group companies used assets of which they were not the economic owner according to the IASB rules. Most of these assets were aircraft, hotel complexes or ships for which operating leases, i.e. rental, lease or charter agreements, were concluded at terms and conditions customary in the sector.

Operating rental, lease and charter contracts

€ million	30 Sep 2018	30 Sep 2017	Var. %
Aircraft	1,547.1	1,461.1	+5.9
Hotel complexes	675.2	728.4	–7.3
Travel agencies	212.3	217.1	–2.2
Administrative buildings	244.0	233.8	+4.4
Ships, Yachts and motor boats	1.0	29.2	–96.6
Other	131.3	107.8	+21.8
Total	**2,810.9**	**2,777.4**	**+1.2**

Further explanations as well as the structure of the remaining terms of the financial liabilities from operating rental, lease and charter agreements are provided in the section Other financial liabilities in the Notes to the consolidated financial statements.

Information on other intangible, unrecognised assets in terms of brands, customer and supplier relationships and organisational and process benefits is provided in the section TUI Group Corporate Profile; relationships with investors and capital markets are outlined in the section TUI Share.

TUI Group Corporate Profile see page 32; TUI Share from page 103

Financial position of the Group

Principles and goals of financial management

PRINCIPLES

TUI Group's financial management is centrally operated by TUI AG, which acts as the Group's internal bank. Financial management covers all Group companies in which TUI AG directly or indirectly holds an interest of more than 50 %. It is based on policies covering all cash flow-oriented aspects of the Group's business activities. In the framework of a cross-national division of tasks within the organisation, TUI AG has outsourced some of its operational financial activities to First Choice Holidays Finance Ltd, a British Group company. However, these financial activities are carried out on a coordinated and centralised basis.

GOALS

TUI's financial management goals include ensuring sufficient liquidity for TUI AG and its subsidiaries and limiting financial risks from fluctuations in currencies, commodity prices and interest rates as well as default risk of treasury activities.

LIQUIDITY SAFEGUARDS

The Group's liquidity safeguards consist of two components:

- In the course of the annual Group planning process, TUI draws up a multi-annual finance budget, from which long-term financing and refinancing requirements are derived. This information and financial market observation to identify refinancing opportunities create a basis for decision-making, enabling appropriate financing instruments for the long-term funding of the Company to be adopted at an early stage.
- TUI uses syndicated credit facilities and bilateral bank loans as well as its liquid funds to secure sufficient short-term cash reserves. Through intra-Group cash pooling, the cash surpluses of individual Group companies are used to finance the cash requirements of other Group companies. Planning of bank transactions is based on a monthly rolling liquidity planning system.

LIMITING FINANCIAL RISKS

The Group companies operate on a worldwide scale. This gives rise to financial risks for TUI Group, mainly from changes in exchange rates, commodity prices and interest rates.

The key operating financial transaction risks relate to the euro, US dollar and pound sterling and changing fuel prices. They mainly result from cost items in foreign currencies held by individual Group companies, e. g. hotel sourcing, aircraft fuel and bunker oil invoices or ship handling costs.

The Group has entered into derivative hedges in various foreign currencies in order to limit its exposure to risks from changes in exchange rates for the hedged items. Changes in commodity prices affect TUI Group, in particular in procuring fuels such as aircraft fuel and bunker oil. These price risks related to fuel procurement are largely hedged with the aid of derivative instruments. Where price increases can be passed on to customers due to contractual agreements, this is also reflected in our hedging behaviour. In order to control risks related to changes in interest rates arising on liquidity procurement in the international money and capital markets and investments of liquid funds, the Group uses derivative interest hedges on a case-by-case basis as part of its interest management system.

In order to limit default risks from settlement payments for derivatives as well as money market investments with banks and investments in money market funds, TUI AG and First Choice Holidays Finance Ltd. have defined credit rating criteria for the selection of their counterparties. Trading and transaction limits are fixed on the basis of the credit ratings granted by the main rating agencies. The credit ratings and the corresponding limits are regularly reviewed. In the event of fair value changes in derivatives or rating changes, new business with these counterparties may temporarily be suspended until the limits can be adequately utilised again. The limits are fixed in consultation between the CFO and the Treasury Department.

The use of derivative hedges is based on underlying transactions; the derivatives are not used for speculation purposes.

More detailed information on hedging strategies and risk management as well as financial transactions and the scope of such transactions at the balance sheet date is provided in the Risk Report and the section Financial instruments in the Notes to the consolidated financial statements.

See from page 50 and 225

Capital structure

Capital structure of the Group

€ million	30 Sep 2018	30 Sep 2017	Var. %
Non-current assets	10,682.1	9,867.6	+ 8.3
Current assets	4,929.7	4,317.9	+ 14.2
Assets	**15,611.8**	**14,185.5**	**+ 10.1**
Subscribed capital	1,502.9	1,501.6	+ 0.1
Capital reserves	4,200.5	4,195.0	+ 0.1
Revenue reserves	– 2,005.3	– 2,756.9	+ 27.3
Non-controlling interest	635.5	594.0	+7.0
Equity	4,333.6	3,533.7	+ 22.6
Non-current provisions	1,730.3	1,896.1	– 8.7
Current provisions	380.9	382.6	– 0.4
Provisions	2,111.2	2,278.7	–7.4
Non-current financial liabilities	2,250.7	1,761.2	+ 27.8
Current financial liabilities	192.2	171.9	+ 11.8
Financial liabilities	2,442.9	1,933.1	+ 26.4
Other non-current liabilities	409.5	459.8	–10.9
Other current liabilities	6,314.6	5,980.2	+ 5.6
Other liabilities	6,724.1	6,440.0	+ 4.4
Equity and liabilities	**15,611.8**	**14,185.5**	**+ 10.1**

Capital ratios

€ million		30 Sep 2018	30 Sep 2017	Var. %
Non-current capital		8,724.1	7,650.8	+ 14.0
Non-current capital in relation to balance sheet total	%	55.9	53.9	+2.0*
Equity ratio	%	27.8	24.9	+ 2.9*
Equity and non-current financial liabilities		6,584.3	5,294.9	+ 24.4
Equity and non-current financial liabilities in relation to balance sheet total	%	42.2	37.3	+ 4.9*

* Percentage points

Overall, non-current capital increased by 14.0 % to € 8,724.1 m. As a proportion of the balance sheet total, it amounted to 55.9 % (previous year 53.9 %).

The equity ratio was 27.8 % (previous year 24.9 %). Equity and non-current financial liabilities accounted for 42.2 % (previous year 37.3 %) of the balance sheet total at the reporting date.

EQUITY

Subscribed capital and the capital reserves rose slightly year-on-year. The increase of 0.1 % each was driven by the issue of employee shares. Revenue reserves rose by € 751.6 m to €– 2,005.3 m. Non-controlling interests accounted for € 635.5 m of equity.

PROVISIONS

Provisions mainly comprise provisions for pension obligations, for maintenance and other typical operating risks classified as current or non-current, depending on expected occurrence. At the balance sheet date, they accounted for a total of € 2,111.2 m, down by € 167.5 m or 7.4 % year-on-year.

FINANCIAL LIABILITIES

Composition of liabilities

€ million	30 Sep 2018	30 Sep 2017	Var. %
Bonds	296.8	295.8	+ 0.3
Liabilites to banks	780.5	381.3	+ 104.7
Liabilites from finance leases	1,342.7	1,226.5	+ 9.5
Other financial liabilities	22.9	29.5	– 22.4
Financial liabilities	**2,442.9**	**1,933.1**	**+ 26.4**

STRUCTURAL CHANGES IN FINANCIAL LIABILITIES

The Group's financial liabilities increased by a total of € 509.8 m to € 2,442.9 m. The structure of liabilities was affected by a slight rise in liabilities from finance leases and an increase in financial liabilities from the issue of a Schuldschein.

OVERVIEW OF TUI'S LISTED BOND

The table below lists the maturities, nominal volumes and annual interest coupon of listed bonds from 2016 with a nominal value of € 300.0 m and a 5-year period to maturity.

Listed bonds

Capital measures	Issuance	Maturity	Amount initial € million	Amount outstanding € million	Interest rate % p.a.
Senior Notes 2016	October 2016	October 2021	300.0	300.0	2.125

BANK LOANS AND OTHER LIABILITIES FROM FINANCE LEASES

Apart from the bonds worth € 300.0 m for the purposes of general corporate financing, TUI AG issued a Schuldschein worth a total of € 425.0 m in July 2018. A fixed interest rate was agreed for three tranches with tenors of 5, 7 and 10 years. Two other tranches with tenors of 5 and 7 years will carry a floating interest rate based on 6-month EURIBOR plus a fixed margin. The resulting interest rate risks are hedged by interest rate transactions with the same terms. At an average tenor of nearly 6.5 years for the Schuldschein, the interest costs amount to around 1.75 % p.a.

Moreover, the Hotels & Resorts and Cruises segments took out separate bank loans, primarily in order to finance investments by these companies. Most liabilities from finance lease contracts are attributable to aircraft as well as one cruise ship. More detailed information, in particular on the remaining terms, is provided under Financial liabilities in the Notes to the consolidated financial statements.

OTHER LIABILITIES

Other liabilities totalled € 6,724.1 m, up by € 284.1 m or 4.4 % year-on-year.

See section on Financial liabilities in the Notes, page 217

Off-balance sheet financial instruments and key credit facilities

OPERATING LEASES

The development of operating rental, leasing and charter contracts is presented in the section Net assets in the Management Report.

See page 74

More detailed explanations and information on the structure of the remaining terms of the associated financial liabilities are provided in the section Other financial liabilities in the Notes to the consolidated financial statements. There were no contingent liabilities related to special-purpose vehicles.

SYNDICATED CREDIT FACILITIES OF TUI AG

TUI AG signed a syndicated credit facility worth € 1.75 bn in September 2014. This syndicated credit facility is available for general corporate financing purposes (in particular in the winter months). It carries a floating interest rate which depends on the short-term interest rate level (EURIBOR or LIBOR) and TUI's credit rating plus a margin. At the balance sheet date, an amount of € 102.4 m from this credit facility had been taken up in the form of bank guarantees.

BILATERAL GUARANTEE FACILITIES OF TUI AG WITH INSURANCE COMPANIES AND BANKS

TUI AG has concluded several bilateral guarantee facilities with various insurance companies with a total volume of £ 85.0 m and € 130.0 m. These guarantee facilities are required for the delivery of tourism services in order to ensure that Group companies are able to meet, in particular, the requirements of European oversight and regulatory authorities on the provision of guarantees and warranties. The guarantees issued usually have a term of 12 to 18 months. They give rise to a commission in the form of a fixed percentage of the maximum guarantee amount. At the balance sheet date, an amount of £ 27.3 m and € 30.0 m from these guarantee facilities had been used.

TUI AG also concluded bilateral guarantee facilities with a total volume of € 42.5 m with banks to provide bank guarantees in the framework of ordinary business operations. Some of the guarantees have a term of several years. The guarantees granted give rise to a commission in the form of a fixed percentage of the maximum guarantee amount. At the balance sheet date, an amount of € 15.8 m from these guarantee facilities had been used.

Obligations from financing agreements

The Schuldschein worth € 425.0 m from 2018, the bond worth € 300.0 m from 2016 and the credit and guarantee facilities of TUI AG contain a number of obligations. TUI AG has a duty to comply with certain financial covenants (as defined in the respective contracts) from its syndicated credit facility worth € 1.75 bn and a number of bilateral guarantee lines. These require (a) compliance with a underlying EBITDAR-to-net interest expense ratio measuring TUI Group's relative charge from the interest result and the lease and rental expenses; and (b) compliance with a net debt-to-underlying EBITDA ratio, calculating TUI Group's relative charge from financial liabilities. The underlying EBITDAR-to-net interest expense ratio must have a coverage multiple of at least 1.5; net debt must not exceed 3.0 times underlying EBITDA. The financial covenants are determined every six months. They restrict, inter alia, TUI's scope for encumbering or selling assets, acquiring other companies or shareholdings, or effecting mergers.

The Schuldschein worth €425.0 m, the bond worth €300.0 m and the credit and guarantee facilities of TUI AG also contain additional contractual clauses typical of financing instruments of this type. Non-compliance with these obligations awards the lenders the right to call in the facilities or terminate the financing schemes for immediate repayment.

Ratings by Standard & Poor's and Moody's

TUI AG ratings

	2013	2014	2015	2016	2017	**2018**	Outlook
Standard & Poor's	B	B+	BB–	BB–	BB	BB	stable
Moody's	B3	B2	Ba3	Ba2	Ba2	Ba2	positive

In the light of improved metrics and continuous operating improvements as well as resilience against geopolitical events, Moody's upgraded the corporate rating of 'Ba2' with a 'positive outlook' in February 2018.

TUI AG's bond worth €300.0 m has been assigned a 'BB' rating by Standard & Poor's and a 'Ba2' rating by Moody's. TUI AG's syndicated credit facility worth €1.75 bn is assigned a 'BB' rating by Standard & Poor's.

Financial stability targets

TUI considers a stable credit rating to be a prerequisite for the further development of the business. In response to the structural improvements resulting from the merger between TUI AG and TUI Travel and the operating performance observed over the past few years, combined with a strengthening business model despite a challenging environment, Moody's upgraded their TUI ratings with a 'positive outlook'. We are seeking further improvements in the rating so as to ensure better access to the debt capital markets even in difficult macroeconomic situations, apart from achieving better financing terms and conditions. The financial stability ratios we have defined are leverage ratio and coverage ratio, based on the following basic definitions:

Leverage ratio = (gross financial liabilities + discounted value of financial commitments from lease, rental and leasing agreements + defined-benefit obligations) / (reported EBITDA + long-term leasing and rental expenses); Coverage ratio = (reported EBITDA + long-term leasing and rental expenses) / (net interest expense + ⅓ of long-term leasing and rental expenses). These basic definitions are subject to specific adjustments in order to reflect current circumstances. For the completed financial year, the leverage ratio was 2.7(x), while the coverage ratio was 6.7(x). We aim to achieve a leverage ratio between 3.00(x) and 2.25(x) and a coverage ratio between 5.75(x) and 6.75(x) for FY 2019.

See (37) Capital management in the Notes on page 239

Interest and financing environment

In the period under review, short-term interest rates remained at an extremely low level compared with historical rates. In some currency areas, the interest rate remained negative throughout the year, with corresponding impacts on returns from money market investments but also on reference interest rates for floating-rate debt.

Quoted credit margins (CDS levels) for corporates in the sub-investment grade area remained almost flat year-on-year. Quotations remained on a persistently low level for TUI AG. Refinancing options were available against the backdrop of the receptive capital market environment, and TUI AG took advantage of this in July 2018 by issuing a Schuldschein worth €425.0 m.

In the completed financial year, in addition to the issue of a Schuldschein worth €425.0 m, sale-and-lease-back agreements were signed for seven new airplane. These include finance leases for one B787-8 and two B737-8 Max and operating lease agreements for one B787-9 and three B737-8 Max.

Liquidity analysis

LIQUIDITY RESERVE

In the completed financial year, TUI Group's solvency was secured at all times by means of cash inflows from operating activities, liquid funds, and bilateral and syndicated credit agreements with banks.

At the balance sheet date, TUI AG, the parent company of TUI Group, held cash and cash equivalents worth € 889.3 m.

RESTRICTIONS ON THE TRANSFER OF LIQUID FUNDS

At the balance sheet date, there were restrictions worth around € 0.2 bn on the transfer of liquid funds within the Group that might significantly impact the Group's liquidity, such as restrictions on capital movements and restrictions due to credit agreements concluded.

CHANGE OF CONTROL

Significant agreements taking effect in the event of a change of control due to a takeover bid are outlined in the chapter on Information required under takeover law.

See chapter Information required under takeover law

Cash flow statement

Summary cash flow statement

€ million	**2018**	2017
Net cash inflow from operating activities	+1,150.9	+1,583.1
Net cash outflow from investing activities	– 845.7	– 687.7
Net cash outflow from financing activities	– 236.9	–733.8
Change in cash and cash equivalents with cash effects	**+ 68.3**	**+161.6**

The cash flow statement shows the flow of cash and cash equivalents with cash inflows and outflows presented separately for operating, investing and financing activities. The effects of changes in the group of consolidated companies are eliminated. The prior year's cash flow statement shows the flow of cash and cash equivalents for the continuing and discontinued operations.

In the period under review, cash and cash equivalents rose by € 31.9 m to € 2,548.0 m.

NET CASH INFLOW FROM OPERATING ACTIVITIES

In the financial year under review, the cash inflow from operating activities amounted to € 1,150.9 m (previous year € 1,583.1 m). The year-on-year decrease on a positive operating performance was mainly driven by a lower increase in working capital year-on-year as well as a higher one-off payment to pension funds in the UK.

NET CASH OUTFLOW FROM INVESTING ACTIVITIES

In the financial year under review, the cash outflow from investing activities totalled € 845.7 m (previous year € 687.7 m). While the cash outflow for capital expenditure related to property, plant and equipment and financial investments amounted to € 956.2 m, the cash inflow from the sale of property, plant and equipment and financial investments stood at € 192.4 m. The cash outflow of € 135.6 m for the acquisition of consolidated companies almost exclusively relates to the Destination Experiences and Hotels & Resorts segments. The cash outflow for capital expenditure related to property, plant and equipment and intangible assets and the cash inflow from corresponding sales do not match the additions and disposals shown in the development of fixed assets, as these also include non-cash investments and disposals.

NET CASH OUTFLOW FROM FINANCING ACTIVITIES

The cash outflow from financing activities totals € 236.9 m (previous year € 733.8 m). TUI AG recorded an inflow of cash of € 422.9 m from the issue of an unsecured Schuldschein after deducting borrowing costs. TUI Group companies took out further financial liabilities worth € 11.3 m. A further cash outflow of € 162.7 m related to the redemption of financial liabilities, including € 106.5 m for finance lease obligations. An amount of € 110.8 m was used for interest payments, while a cash outflow of € 381.8 m related to dividend payments to TUI AG shareholders and a further outflow of € 53.5 m to dividend payments to minority shareholders.

Change in cash and cash equivalents

€ million	**2018**	2017
Cash and cash equivalents at the beginning of period	**+ 2,516.1**	**+ 2,403.6**
Changes due to changes in exchange rates	– 36.4	– 49.1
Cash changes	+ 68.3	+161.6
Cash and cash equivalents at the end of period	**+ 2,548.0**	**+ 2,516.1**

Cash and cash equivalents comprise all liquid funds, i.e. cash in hand, bank balances and cheques.

The detailed cash flow statement and additional explanations are provided in the consolidated financial statements and in the section Notes to the cash flow statement in the Notes to the consolidated financial statements.

See page 158 and 241

Analysis of investments

The development of fixed assets, including property, plant and equipment, intangible assets and shareholdings and other investments, is presented in the section on Net assets in the Management Report. Additional explanatory information is provided in the Notes to the consolidated financial statements.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

The table below lists the cash investments in intangible assets and capital expenditure in property, plant and equipment. This indicator does not include financing transactions such as the taking out of loans and finance leases.

Net capex and investments

€ million	2018	2017	Var. %
Cash gross capex			
Hotels & Resorts	240.6	223.0	+7.9
Cruises	244.6	281.4	–13.1
Destination Experiences	9.5	10.1	–5.9
Holiday Experiences	494.8	514.5	–3.8
Northern Region	78.9	58.5	+34.9
Central Region	26.8	22.3	+20.2
Western Region	46.4	31.0	+49.7
Markets & Airlines	152.2	111.9	+36.0
All other segments	146.2	146.1	+0.1
TUI Group	**793.2**	**772.5**	**+2.7**
Discontinued operations	–	28.6	n. a.
Total	**793.2**	**801.2**	**–1.0**
Net pre delivery payments on aircraft	17.7	202.5	–91.3
Financial investments	164.1	122.6	+33.8
Divestments	–148.0	–54.4	–172.1
Net capex and investments	**827.0**	**1,071.9**	**–22.8**

Investments in other intangible assets and property, plant and equipment totalled €793.2 m in the period under review, down –1.0 % year-on-year.

In the financial year under review, investments mainly related to the acquisition and renovation of Marella Explorer, the construction of hotels, in particular in Mexico and the Cape Verde Islands, and the acquisition of two hotels in Zanzibar, the development and launch of Group-wide IT platforms and down payments on ordered aircraft. Investments were also effected for renovation and maintenance in all areas.

The table below shows a reconciliation of capital expenditure to additions to TUI Group's other intangible assets and property, plant and equipment.

Reconciliation of capital expenditure

€ million	2018	2017
Capital expenditure	**793.2**	**801.2**
Finance leases	194.0	136.0
Advance payments	163.1	247.8
Additions within assets held for sale	–	–28.6
Other non-cash changes	–4.2	3.5
Additions to other intangible assets and property, plant and equipment	**1,146.1**	**1,159.9**

Investment obligations

ORDER COMMITMENTS

Due to agreements concluded in FY 2018 or in prior years, order commitments for investments totalled €3,883.3 m as at the balance sheet date; this total includes an amount of €1,092.1 m for scheduled deliveries in FY 2018.

At the balance sheet date, order commitments for aircraft comprised 70 planes (two B-787s and 68 B-737s), to be delivered by the end of FY 2023. Delivery of 18 B-737-Max aircraft has been scheduled for FY 2019.

More detailed information is provided in the section Other financial liabilities in the Notes to the consolidated financial statements.

Net financial position

From the H1 2018 interim report onwards, we have adjusted the definition of our net debt. While net debt had previously been calculated as the balance between current and non-current financial debt on the one hand and cash and cash equivalents on the other, from now on we also consider short-term interest-bearing investments as deduction items. The majority of these investments have terms of three to six months. In accordance with IFRS regulations, these investments are not shown in the consolidated balance sheet as cash and cash equivalents but as current trade receivables and other assets. The adjustment had no effect on the previous year.

The net liquidity position of the continuing operations decreased by € 459.4 m year-on-year to € 123.6 m as at 30 September 2018.

The year-on-year reduction in the net liquidity position was primarily attributable to the reinvestment of gains on disposal received last year as well as higher touristic prepayments.

Net financial position

€ million	**30 Sep 2018**	30 Sep 2017	Var. %
Financial debt	2,442.9	1,933.1	+ 26.4
Cash and cash equivalents	2,548.0	2,516.1	+ 1.3
Short-term interest-bearing investments	18.5	–	n. a.
Net cash	**123.6**	**583.0**	**– 78.8**

NON-FINANCIAL DECLARATION

pursuant to the CSR Directive Implementation Act

For TUI 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 and beyond. We recognise that sustainable development is critical for long term economic success and we aspire to pioneer sustainable tourism across our sector.

In the following section we report on sustainability issues which support better understanding of our business's operations, context and future development, in line with CSR reporting legislation. In compliance with Section 315b, paragraph 1, clause 3 German Commercial Code (HGB) we also refer to relevant aspects of non-financial disclosure found in other parts of the Group management report.

Within the framework of our materiality analysis we gained insight into the sustainability risks and opportunities. We did not identify any non-financial risks as defined by the CSR-RUG. In particular, we report on our risk management system and principle risks linked with our business activities, business relations and services in our Risk Report from page 40 on.

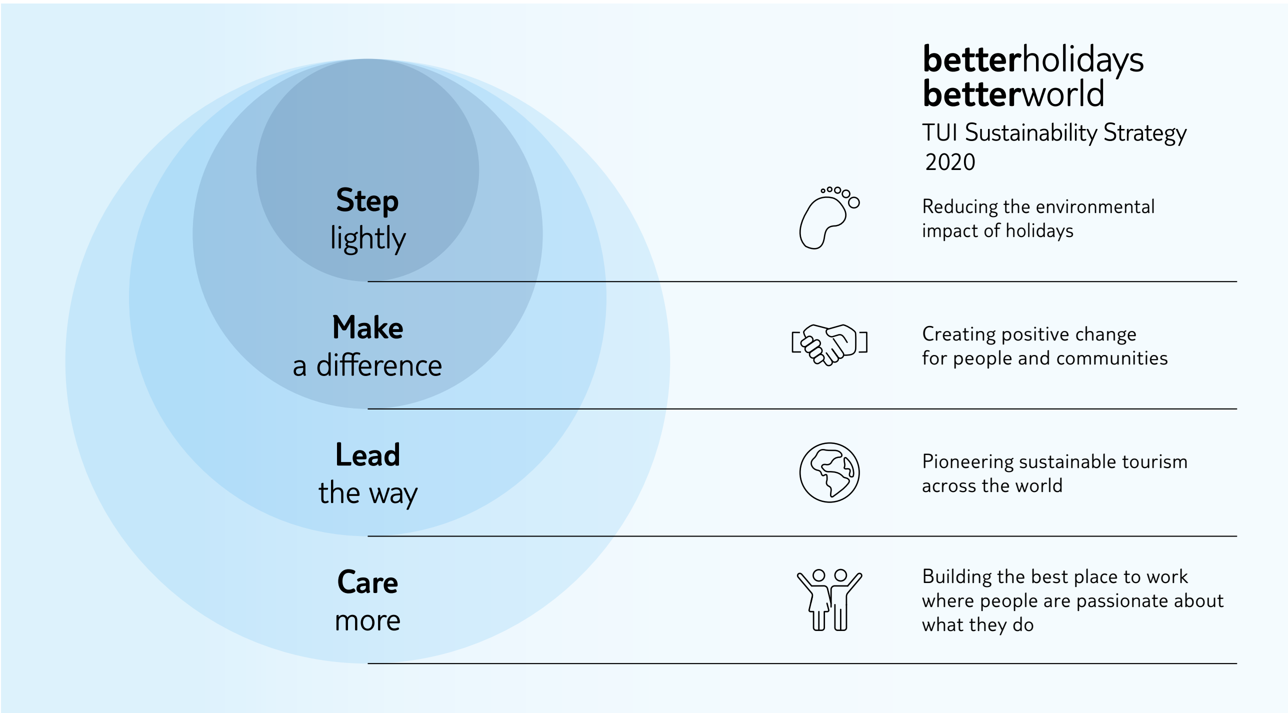
This non-financial Group statement has been reviewed by the Supervisory Board with regard to aspects of legality, regularity and relevance. Our reporting covers the United Nations Global Compact principles and we regularly review our activities against the United Nations Sustainable Development Goals (SDGs). The goals provide a useful framework with which to view our impact and the contributions we make to a better world. We see a special contribution towards seven of the SDGs – knowing these are also interdependent. A detailed mapping is published in our sustainability report.

Business model

TUI Group's business model as defined in HGB section 289b is outlined from page 28 in the present Annual Report.

Sustainability strategy and implementation

TUI Sustainability Strategy 2020



Our 'Better Holidays, Better World' 2015–2020 strategy is built around the following core pillars:

- **Step lightly,** where we commit to operate the most carbon-efficient airlines in Europe and cut the carbon intensity of our operations by 10 % by 2020.
- **Make a difference,** where we commit to deliver 10 m 'greener and fairer'* holidays per year by 2020, enabling more local people to share in the benefits of tourism.
- **Lead the way,** where we commit to invest € 10 m per year by 2020, to support good causes and enhance the positive impacts of tourism, using the TUI Care Foundation to support this work.
- **Care more,** where we commit to achieve a colleague engagement score of over 80.

*Measured by the number of customers we take to hotels with credible sustainability certification – defined as those recognised or approved by the Global Sustainable Tourism Council (GSTC).

MATERIALITY

TUI Group carried out a formal materiality assessment in FY 2018 involving a variety of stakeholder groups. Through a global stakeholder survey and an impact analysis, the most material aspects were identified and prioritized using recognized qualitative and quantitative methods. The graph below shows the major areas where TUI's stakeholders would like us to focus even more commitment and engagement.

For our assessment, we identified the following key stakeholder groups

- Customers
- Employees
- Financial markets
- Media
- Non-Governmental Organisations
- Politics
- Science
- Shareholders
- Suppliers / Business Partners

Materiality Matrix

1 *Resource efficiency, sustainable procurement*
2 *Child protection*
3 *Local value creation & communities*
4 *Emissions & pollution*
5 *Forced labour*
6 *Creating more sustainable holidays & engaging customers*
7 *Fair business conduct*
8 *Customer well-being*
9 *Crisis management*
10 *Colleague working environment*
11 *Animal welfare & biodiversity*

Findings will now be discussed with senior management and help inform the development of TUI's sustainability strategy for the next years.

MANAGING SUSTAINABILITY

Across TUI Group dedicated and experienced sustainability professionals work in close collaboration with senior management at Group and at divisional level to help ensure that TUI's business and sustainability strategies are aligned. Our sustainability colleagues' role is to drive uptake of more sustainable business practices across the TUI Group and along its supply chain, and to advise the TUI Care Foundation on destination project proposals and implementation. On a regular basis the TUI Group Executive Committee is updated on our performance against the sustainability strategy and on material issues. Also sustainability is regularly on the agenda in divisional management boards, platform boards (i. e. hotels and aviation) and in the risk oversight committee.

As part of TUI's sustainability management approach, the corporate headquarters has been successfully audited against the ISO 14001:2015 environmental standard.

Senior Management from across TUI regularly speak at a range of forums and conferences about the industry's most material issues and TUI's response to them. Furthermore sustainability is a key issue whenever we collaborate with destination governments and develop our growth strategy.

Managing sustainability-embedding

SUSTAINABILITY INDICES AND AWARDS

TUI AG is represented in the sustainability index FTSE4Good and on the Ethibel Investment Register. In 2018 TUI was included in the RobecoSam Sustainability Yearbook with a 'Silver Class' distinction. TUI participated again in the CDP Climate Change assessment 2018, results being announced in early 2019.

Throughout the year TUI companies have been recognized by a variety of awards. TUI Cruises was awarded in December 2017 with the EcoTrophea at the German Travel Association Awards. In January 2018 TUI fly Belgium won the Brussels Airport Environment Award and in March 2018 TUI fly Germany, TUI Cruises, TUI Germany, Robinson Club and TUI Magic Life ranked high in a consumer research within the sustainability dimension undertaken by the Service Value and Focus in Germany.

The environment

Respecting the environment in our products, services and processes is an essential feature of our quality standards. We place priority on improving carbon and resource efficiency. Conserving natural resources and mitigating negative environmental impacts are both in the interests of our business as as well as the future success of travel and tourism.

We face additional environmental challenges at a local level. Plastic waste, for example, is having a negative impact on destinations and ecosystems, especially in the oceans. Fresh water is also likely to become increasingly scarce in the coming years in some destinations.

Tackling climate change is an urgent global challenge. The goal of the Paris Agreement to limit global warming to below 2°C above pre-industrial levels is ambitious and requires that every industry makes a timely transition towards an energy-efficient, lower-carbon future. As a sector leader, TUI has a responsibility to play our part. Carbon emissions are one of the most significant environmental impacts of tourism. Travel and tourism contribute some 5 % (UNEP 2008) of global carbon emissions – half of which is attributable to aviation.

Our 'Step lightly' strategy therefore aims to reduce the environmental intensity of our operations and sets clear stretch targets for improvement across aviation, cruise, hotels, offices, retail shops and ground transport. TUI has implemented specific carbon reduction initiatives across the business – from airline and cruise efficiency programmes, to retail energy savings and the reduction of printed brochures.

- Our headline goal: We will operate Europe's most carbon-efficient airlines and reduce the carbon intensity of our operations by 10 % by 2020 (Baseline year 2014)

Carbon dioxide emissions (CO_2)

tons	**2018**	2017	Var. %
Airlines & Aviation	6,393,342	6,115,492	+ 4.5
Cruises	850,335	815,582	+ 4.3
Hotels	554,666	507,230	+ 9.4
Major premises / shops	26,195	29,511	– 11.2
Ground Transport	16,782	15,388	+ 9.1
Scope 3 (Other)	78,852	73,254	+ 7.6
Group	**7,920,172**	**7,556,457**	**+ 4.8**

In FY 2018, TUI Group's total emissions increased year-on-year in absolute terms, primarily due to growth in its Airline & Aviation sector. The increase in absolute carbon emissions in Hotels is driven by the expansion of TUI's hotel portfolio. Carbon emissions in Cruises increased by 4.3 % which was the result of the launch of the new Mein Schiff 1 (operated by TUI Cruises) and the first full year reporting of Mein Schiff 6.

Emissions from offices and retail shops significantly declined, mainly due to energy efficiency initiatives in the UK and Germany.

Energy usage by business area

MWh	**2018**	2017	Var. %
Airlines & Aviation	26,070,988	24,940,489	+ 4.5
Cruises	3,227,813	3,077,062	+ 4.9
Hotels	1,527,259	1,420,438	+ 7.5
Major premises / shops	88,076	91,422	– 3.7
Ground transport	67,283	61,697	+ 9.1
Total	**30,981,419**	**29,591,108**	**+ 4.7**

ENERGY USAGE BY BUSINESS AREA

As part of TUI's environmental reporting we have included a breakdown of energy usage by business area. Airlines and Aviation represents more than 84 % of the total energy used.

CLIMATE PROTECTION AND RESOURCE EFFICIENCY BY TUI AIRLINES

We already operate one of Europe's most carbon-efficient airlines and we aim to continuously improve. TUI Airlines' comparative performance was recognised in November 2017 by the independent climate protection organisation atmosfair, which ranked TUI Airways and TUI fly Germany #1 and #3 respectively as the most carbon-efficient airlines amongst the 200 largest airlines worldwide. TUI Airlines have numerous measures in place to further enhance carbon efficiency. We have implemented the following measures to support our efficiency goals:

- Fleet renewal: TUI took receipt of the first five Boeing 737 Max aircraft in FY 2018 (of 73 total confirmed orders), which are 14 % more fuel efficient resulting in lower carbon and NOx emissions and have a 40 % smaller noise footprint compared to previous generation aircraft
- Process optimisation, e.g. single-engine taxing in and out, acceleration altitude reduction and wind uplinks
- Weight reduction, e.g. introduction of carbon brakes and water uplift optimisation
- Flight planning optimisation, e.g. Alternate Distance Optimisation and Minimum Fuel Optimisation
- Implementation of fuel management systems to improve fuel analysis, identify further opportunities and track savings

With efficiency measures and fleet renewal, we expect to continue to make progress over the next few years but acknowledge that reaching our commitment to reduce our operational carbon intensity by 10 % by 2020 will be a challenge.

TUI's airlines play a pioneering role in introducing environmental management systems based on the internationally recognised ISO 14001 standard. In the period under review, each of our five tour operator airlines (representing 95 % of our aircraft) achieved ISO 14001:2015 certification.

The TUI Aviation Environment & Fuel Team is responsible for an alignment of the fuel and environment practices and activities, integrating them into a single TUI Airlines operating policy, procedures and performance tools. The team drives best practice in fuel and environment management, providing end-to-end delivery of initiatives and projects in order to deliver the TUI Group sustainability objectives. Latest developments and updates about the performance are presented to the TUI Aviation Board regularly so that appropriate measures can be taken.

TUI Airlines – Fuel consumption and CO_2 emissions

		2018	2017	Var. %
Specific fuel consumption	l/100 rpk*	2.65	2.65	– 0.1
Carbon dioxide (CO_2) – total	t	5,860,431	5,571,719	+ 5.2
Carbon dioxide (CO_2) – specific	kg/100 rpk*	6.67	6.67	– 0.1

* rpk=revenue passenger kilometer

TUI Airlines – Carbon intensity

		2018	2017	Var. %	g CO_2e/rpk*
TUI Airline fleet	**g CO_2/rpk***	**66.7**	**66.7**	**– 0.1**	**67.3**
Corsair International	g CO_2/rpk*	84.9	84.3	+ 0.8	85.8
TUI Airways	g CO_2/rpk*	63.6	63.4	+ 0.2	64.2
TUI fly Belgium	g CO_2/rpk*	70.0	71.5	– 2.2	70.7
TUI fly Germany	g CO_2/rpk*	64.7	63.5	+1.9	65.4
TUI fly Netherlands	g CO_2/rpk*	64.0	65.2	–1.8	64.7
TUI fly Nordic	g CO_2/rpk*	58.2	61.3	– 5.3	58.8

* rpk=revenue passenger kilometer
We commissioned PwC Netherlands to provide assurance on the carbon intensity metrics displayed in the table 'TUI Airlines – Carbon Intensity' above. To read our airline carbon data methodology document and PwC's Assurance report in full, please visit www.tuigroup.com/en-en/sustainability/reporting

Relative carbon emissions across our airlines improved by 0.1 % in the FY 2018. As a scheduled longhaul operator Corsair International's payload consists of both passengers and cargo. Cargo transportation results in higher fuel burn and carbon emissions as is reflected in Corsair's carbon intensity performance. TUI fly Germany's carbon efficiency performance deteriorated due to fleet expansion associated with Air Berlin's insolvency.

To enhance the information content, specific emissions are also shown in the form of CO_2 equivalents (CO_2e). Apart from carbon dioxide (CO_2), they include the other five greenhouse gases impacting the climate as listed in the Kyoto Protocol: methane (CH_4), nitrous oxide (N_2O), hydro-fluorocarbons (HFCs), perfluorocarbons (PFCs) and Sulphur hexafluoride (SF_6).

CLIMATE PROTECTION AND RESOURCE MANAGEMENT IN CRUISES

In 2018, TUI Cruises launched the new Mein Schiff 1. The newbuild ships in the fleet save fuel through a combination of the latest technologies. A smart energy management system, efficient air conditioning, innovative lighting controls and the use of waste heat from the engines all contribute to a significantly reduced carbon footprint. The International Maritime Organization (IMO) has defined particularly stringent NOx limit values for ship newbuilds in specified Nitrogen Emission Control Areas (NECAS) off the North American coast. Equipped with a main engine that is completely compliant with TIER III, the new Mein Schiff 1 fully meets these criteria.

⊕ *TUI Cruises Environment Report: www.tuicruises.com/nachhaltigkeit/umweltbericht/*

Sulphur emissions from the newbuilds in the fleet are also up to 99 % lower thanks to new systems that treat exhaust fumes before releasing them. The ships are fitted with advanced emission purification systems, which operate around the clock worldwide – not only in the designated special emission control areas of the North and Baltic Seas, the English Channel and North America but also in the other areas that TUI Cruises travels to, such as the Mediterranean, Orient, Caribbean and Central America.

In FY 2018, TUI Cruises continued a food waste project supported by the industry initiative Futouris entitled 'Reduction of food waste on cruise ships'. Using a waste analysis tool and applying various measures onboard led to an overall 17 % reduction in food waste onboard the ship. These results, including specific proposals relating to measurement of food waste and best practices, will be made available to the entire cruise sector and are being implemented more widely across the TUI Cruises fleet.

All Hapag-Lloyd Cruises ships have Tributyltin-free underwater coatings, seawater desalination systems for water treatment purposes as well as a biological sewage treatment system for wastewater. Waste is separated on board in an environmentally-friendly manner prior to disposal on land by specialized companies in accordance with international regulations (MARPOL). Hapag-Lloyd Cruises' expedition vessel MS Bremen is one of the first ships worldwide which has achieved the 'Polar Ship Certificate', a certificate for navigating in polar regions. To reduce emissions in harbors, the MS Europa 2 has facilities for cold ironing for the energy supply onboard when berthing in respective harbors.

In the FY 2018 Marella Cruises has invested significant time improving its environmental data management systems and processes. This has helped to drive environmental performance with carbon emissions, fresh water consumption and waste production per passenger cruise night all improving year on year. The fleet continues to operate as efficiently as possible. This is achieved through the installation of new equipment on board such as air conditioning plant, and operating single engine running, or drifting on passage, so that the engines can run at their most efficient speed – all of which cuts energy demand on board.

Cruises – carbon intensity, fresh water and waste

	2018	2017	Var. %
Carbon dioxide (CO_2) – relative kg / Cruise passenger night	101	108	– 6.5
Fresh water – relative l / Cruise passenger night	110	162	– 31.9
Waste – relative l / Cruise passenger night	12.7	14.7	– 13.6

In FY 2018, relative carbon emissions in Cruises decreased by 6.5 % mainly driven by the on-going re-fleeting programme, more efficient energy use and technological improvements.

Per cruise passenger night 12.7 litres of waste were measured – a reduction by 13.6 % and 110 litres of fresh water consumed, a reduction by 31.9 %, due to fleet renewal and enhanced water desalination facilities on board.

CLIMATE PROTECTION AND RESOURCE MANAGEMENT BY HOTELS

Together with our hotel partners we constantly work on improving our sustainability performance. We have found our hotels with sustainability certifications deliver on average better environmental performance and higher customer satisfaction.

We have included a sustainability clause in contracts with our accommodation suppliers outlining minimum expectations and the requirement to work towards credible sustainability certification recognised by the Global Sustainable Tourism Council (GSTC). TUI is supporting its hotel partners by providing guidance and consultancy to enable our hotel partners to prepare for certification.

TUI hotels were involved in numerous sustainability projects and initiatives in 2018 including the following:

- In time for the 2018 summer season Robinson Club Apulia has installed a large solar panel system with 3,280 solar panels across a total area of 5,500 square meters. During the four-month construction period, the modern solar system was installed on various building complexes of the club including the restaurant, workshop and some guest houses. Around 71 % of the electricity produced will be used for the self-supply of the club and 29 % will be fed into the local power grid.

- TUI Group's largest hotel brand Riu made an important contribution to avoiding plastic waste. The Riu hotels in Spain and Portugal as well as Cape Verde have been offering compostable straws to their guests since this summer. Likewise, Riu is planning to incorporate them into its hotels in the Americas as of 2019. This will produce less plastic waste and protect the environment. The new drinking straws are 100 %biodegradable and also compostable. Several other TUI hotel brands also took the decision to ban the single-use plastics straws and to offer – if necessary – environmentally friendly straws, i. e. TUI Blue, TUI Magic Life and Robinson.
- TUI Group developed a programme to identify potential cost savings for energy and water. Through an intensive analysis of the consumption data as well as an onsite visit with experts in Portugal, on Lanzarote and Menorca, potential savings of more than 1,700 MWh were identified in three TUI Hotels, and recommended measures are now being implemented.

Hotels – carbon intensity, water* and waste

	2018	2017	Var. %
Carbone dioxide (CO_2) – relative kg/guest night	9.45	9.43	+ 0.2
Water – relative l/guest night	556	531	+ 4.7
Waste – relative kg/guest night	2.2	2.3	– 4.3

* Includes water for domestic, pool and irrigation purposes

Effective waste management aims to conserve resources and reduce environmental impacts and costs through recycling practices. Our owned and partner hotels implement various measures to reduce waste, for example through a stronger focus on local procurement and reducing packaging via buying in bulk. Per guest night 2.2 kg of waste were measured in FY 2018.

Water is one of the most precious resources in the world. Beyond measures to control usage, hotels are finding innovative ways to address fresh water supply problems. For instance, desalination projects can make a big impact in destinations where they are in operation.

ANIMAL WELFARE

TUI audits its suppliers against established animal welfare guidelines. TUI excursions featuring animals must comply with ABTA guidelines (Global Animal Welfare Guidance for Animals in Tourism). Since 2016 more than 150 independent audits of animal attractions featured by TUI were conducted. Wherever possible we prefer to work with suppliers on improvement plans, however a number of venues were taken out of the programme who did not meet the standards.

Social issues and destination collaboration

Tourism can be a powerful force for good – boosting economies, creating jobs and enhancing cultural understanding and tolerance. Through our 'Better Holidays, Better World' strategy we aim to ensure that local communities share the benefits of tourism and that the environment and human rights are protected along our value chain.

- Our headline goal: We will deliver 10 m 'greener and fairer'* holidays a year by 2020, enabling more local people to share in the benefits of tourism

* Measured by the number of customers we take to hotels with credible sustainability certification – defined as those recognised or approved by the Global Sustainable Tourism Council (GSTC).

GREENER AND FAIRER HOLIDAYS

One of our key areas of focus is the hotel – the largest component of the holiday experience. Our expectation of hotels that work with us is that they will commit to social and environmental good practice.

Certification is central to our commitment to offer 'greener and fairer' holidays. It is a credible way of showing whether our hotels go further than others when it comes to social and environmental issues. We encourage our hotels to aim for certification that is GSTC (Global Sustainable Tourism Council) recognised and we are strong supporters of the certification programme Travelife.

We also have a set of exclusive TUI Collection excursions that have been developed by TUI and tailored to give customers a true taste of the destination. Each excursion must meet specific criteria for sustainability, showing that it is bringing benefit to local people and minimising its impact on the environment.

Greener and fairer holidays

	2018	2017	Var. %
Number of customers (millions) staying at certified hotels[1]	9.2	8.3	+11.9
Number of contracted hotels with certifications[1]	1,520	1,356	+12.1
% of TUI Hotels with certifications[1]	78	76	+2[2]
Number of TUI Collection excursions	1,177,095	1,024,000	+15.0

[1] Hotels that are certified to a GSTC-recognised certification
[2] Variance is given in percentage points

In FY 2018, the number of customers staying in a hotel which is certified according to a GSTC-recognised standard increased by 11.9 % to 9.2 million. This increase reflects improved and adjusted reporting processes, as well as the increase in the number of accommodation suppliers who achieved certification to GSTC-recognised standards, by 12.1 % to 1,520 hotels. The number stated in FY 2017 was updated for a like to like comparison which resulted in an increase from 1,220 hotels to 1,356 hotels. Our customers went on 1,177,095 TUI Collection excursions in FY 2018, up 15 % on 2017.

CUSTOMER DEMAND

Embedding sustainability into our brand and raising customer awareness are key priorities. We want to stimulate demand for more sustainable holidays by showing customers how these contribute to a better holiday experience and highlighting the role they can play in creating positive change.

Our consumer research from 2017 showed a significant increase in customer demand for holiday companies to manage their sustainability impacts and to provide more sustainable holiday products. This aligns with our Better Holidays, Better World strategy and spurs on efforts to communicate proactively with customers on sustainability throughout the holiday journey.

- 57 % would book more environmentally responsible holidays if they were more readily available (up from 40 % in 2012)
- 53 % have a better image of holiday companies that actively invest in environmental and social initiatives (up from 39 % in 2012)
- 68 % are prepared to make lifestyle changes to benefit the environment (up from 60 % in 2012)

ACCESS FOR ALL

We aim to provide as many people as possible with accessible holidays, and to pioneer development of new products and processes that enhance the ease and comfort of travel.

In 2018 we continued to assess the services we offer to ensure we are in line with the requirements of the new EU Package Travel Directive 2015 on accessible travel, that was implemented on 1 July 2018. We will continue to focus on improving the information available to customers to ease their holiday booking experience.

DIALOGUE

Stakeholders in destinations have a significant role to play in sustainable tourism management. We work closely with communities, local and national governments, non-governmental organisations and trade associations to support the sustainable management of destinations.

THE LAB OF TOMORROW

The tourism industry is a major part of Egypt's economy. In the 'lab of tomorrow', a joint initiative with the German development organisation GIZ, TUI – with the support of the TUI Care Foundation – is tackling the challenges of lack of appropriately skilled personnel and vocational training opportunities, as well as the low participation of women in the labour force. During 2018 we worked with the project's public and private partners to develop solutions for these problems, researching, co-creating and piloting new business models on a small scale in Egypt to prove the concepts. Issues being examined include development of hotel management skills and improving technical and vocational education for young people in the tourism sector to improve quality standards.

LEADING THE WAY

The TUI Care Foundation is the main channel to fulfil our ambition to support good causes and enhance the positive impacts of tourism.

⊕ *Read more about TUI Care Foundation on www.tuicarefoundation.com*

- Our headline goal: We will invest € 10 m per year by 2020, to support good causes and enhance the positive impacts of tourism, using the TUI Care Foundation to support this work

Investments into projects and good causes

€ million	**2018**	2017	Var. %
Amount raised for research / good causes	7.8	7.3	+ 6.8

The amount raised for sustainability projects and good causes reached 7.8 million in FY 2018, an increase by 6.8 %.

TUI Care Foundation was adopted as our Group corporate foundation in 2016 to unite our project activities. The TUI Care Foundation is an independent charitable foundation, with a majority of non-TUI trustees. TUI Care Foundation builds on the potential of tourism as a force for good by supporting and initiating partnerships and projects that create new opportunities for the young generation and contribute to thriving destinations all over the world.

The Foundation's 'Caring for a Better World' strategic framework has three fields of engagement – empowering young people, protecting the natural environment and helping communities thrive. Examples include:

- The Foundation is helping to empower young people through the TUI ACADEMY programme in the Dominican Republic, Zanzibar and Vietnam, where disadvantaged youth are given education and vocational training opportunities.
- The TUI TURTLE AID programme aims to save one million sea turtles by 2020 through innovative research and protection methods. Projects are supported with local organisations in Cape Verde, Turkey and Greece.
- Through the TUI CARES programme, the Foundation is driving local sourcing, creating cultural experiences for holidaymakers and enhancing entrepreneurship opportunities in holiday destinations such as Crete, Lanzarote and Andalucía.

Human Rights

TUI Group respects all internationally proclaimed human rights as specified in the International Bill of Human Rights and expects the same of our suppliers and business partners. Modern slavery and its components of forced labour and human trafficking are of particular concern given their egregious nature and increasing prevalence.

⊕ *Modern Slavery Act Statement on http://www.tuigroup.com/en-en/sustainability/msa*

In accordance with applicable law, conventions and regulation TUI is committed to respecting human rights throughout its worldwide operations. We have a number of policies and initiatives in place to monitor, identify, mitigate and prevent human rights impacts in line with the UN Guiding Principles on Business and Human Rights, and will take remedial action where necessary.

In September 2014, TUI signed up to the UN Global Compact, committing the Group to 10 universally accepted principles in the areas of human rights, labour, environment and anticorruption. In 2012, TUI signed the UN World Tourism Organisation's (UNWTO) Global Code of Ethics– further underlining our commitment to respecting human rights.

We have a working group on human rights, drawing on senior management from major departments across our business to help with the continuous process of analysing potential human rights risks. We also sit on the Boards of the Global Sustainable Tourism Council (GSTC) and Travelife, both of which are addressing these issues through sustainability certification standards.

TUI Group has a number of policies and procurement processes in place focused on the prevention of human rights violations and modern slavery.

- The Employee Code of Conduct commits us to respect and observe human rights. TUI Group employees are also encouraged to report any wrongdoing to the 'Speak Up' Line.
- The Supplier Code of Conduct sets out the minimum standards we expect from suppliers. The code includes guidance on human rights and labour laws, bribery and corruption, environmental impacts and support for local communities.
- We have incorporated environmental and social requirements into contracts for our accommodation suppliers as well as other areas of procurement.

We require our hotel suppliers to implement credible sustainability 3rd party certifications recognised or approved by the Global Sustainable Tourism Council (GSTC). Schemes approved and / or recognised by GSTC mandate the highest standards of human rights, child protection and social welfare in the tourism industry. The number of TUI customers staying in a hotel certified to a GSTC-recognised standard grew to 9.2 million and the number of hotels with certification grew to 1,520.

A key focus is raising awareness of human rights across our business. In 2018 we continued to roll out bespoke training sessions and material on modern slavery, including a modern slavery video.

Over 4,600 TUI Destination Experiences colleagues completed child protection training in 2018. An e-learning module on modern slavery was developed and cascaded by Destination Experiences in 2018 and over 82 % of customer-facing colleagues have completed it. Airline crew in the UK and Nordics receive Vulnerable Children & Trafficking Training during their inductions, where they learn about how to spot trafficking and what to do. Other TUI airlines are in the process of rolling out similar trainings.

TUI Group supports a number of projects and partnerships to protect human rights in our destinations. We raise awareness of modern slavery at TUI hotel partner conferences and support Travelife with road shows. We co-organised hotelier seminars in Thailand with Travelife in April 2018 to discuss modern slavery and influence more hotels to reach sustainability certification standards.

TUI Care Foundation supports a number of projects which protect human rights. In 2018 the Foundation expanded the TUI Academy programme by launching one in Hue, Vietnam. The project is providing education and training to help young vulnerable street workers improve their lives, including providing 350 young people with vocational training. Some 180 street workers will take part in hospitality training in a social enterprise training restaurant being set up in Hue city.

Our employees

Qualified and engaged employees are a major prerequisite for TUI's long-term success as a leading tourism company. Seeking to recruit, develop and retain the best talents, we therefore adopted a sustainable HR strategy in 2016 designed to make us 'The best company to work for'. It consists of five core strategic areas: Engagement, Leadership, People Development, Organisational Effectiveness and HR Function Development. Within these areas, we have launched 15 strategic projects in total, pursuing them further in the period under review. Thereby we also aim to embed our vision 'Think Travel. Think TUI.' and our corporate values 'Trusted', 'Unique' and 'Inspiring' further in our employees' day-to-day activities.

The Supervisory Board and management are regularly briefed about the implementation status of our HR strategy and the strategic projects. In the completed financial year, we continued to establish an efficient project reporting process, and we intend to build on this further. Beyond that, the definition of KPIs as a control tool will enable us to measure the progress of projects and to depict their sustainability more comprehensively.

Digital transformation is increasingly important for TUI. On the one hand, the provision of products and services to meet our customers' needs and preferences changes. On the other hand, digitisation also creates technical, cultural and organisational challenges for our employees. Economic and social interdependencies are becoming more complex and technological networks more extensive. At the same time, this development also creates the opportunity for our employees to structure their working and private lifes in a manner more in line with their needs. TUI and the Group Works Council are seeking to actively address these requirements and the permanent change taking place in the world of work so as to shape the future together. The policy paper 'newWork@TUI', agreed this year, provides the necessary framework and milestones for the journey through digital transformation.

In order to support our goal to become more digital in HR, we have launched the Group-wide HR cloud solution TUI People. It will support us in our employee recruitment, performance reviews, development and retention activities in the long term. Thus, TUI People makes an essential contribution to securing our Company's competitiveness and the personal development of our employees. In October 2017, we successfully launched the first out of a total of five modules, 'Performance & Talent Management', as a pilot project in seven German Group companies. With the start of the new financial year, this module will be rolled out in additional source markets and other German Group companies to support the Group-wide 'Great Place to Grow' process. The other modules will be successively implemented in 2019.

CARE MORE

We are seeking to be an attractive employer encouraging employees to engage with passion and personality. With 'Care more', the fourth pillar of our 'Better Holidays, Better World' initiative, our employees are an integral and crucial part of our sustainability strategy. After all, they make TUI the number one in the tourism sector and their satisfaction, engagement and personal development are a key prerequisite for our sustained success. Our goal is to achieve a colleague engagement score of over 80 by 2020 in order to be among the Top 25 global companies. This goal also forms the framework for the implementation of our strategic HR projects.

HR STRATEGY PROJECTS

TUIGETHER EMPLOYEE SURVEY

TUIgether is TUI's employee survey, operated in partnership with an independent employee engagement research institute. Now well-established after 3 annual survey cycles from 2015 onward, this year taking account of leadership and employee feedback, a decision was made to hold a Pulse survey.

The Pulse survey was positioned as an interim 'health check' of engagement, providing leaders and teams across the Group a longer timeframe to implement and embed initiatives identified from 2017's annual survey results. Survey participation scope and results reporting to team level were unchanged, yet a shorter questionnaire was adopted. A further annual survey is planned in 2019, utilising the full question set, when teams and businesses across TUI will be able to assess the impact of their 2017 initiatives in depth.

The Pulse survey focused on our priority topics of Engagement, TUI's VIBE leadership model – Vision, Inspire, Build Teams, Execute – and three questions assessing follow up process effectiveness.

Increasing digitisation is a common objective across TUI, and to align with that goal, an App, enabling participants to complete the survey via mobile phone or tablet, was trialled in specific populations this year. The App functionality also permits managers to download their team's results report directly to their mobile phone or tablet if they wish. This is a great benefit, particularly for those managers with geographically dispersed teams who spend significant time travelling.

The TUI Group Engagement Index is 76 in 2018, 2 percentage points above our research institute's Global norm. Compared to the score of 77 in 2017, it slightly decreased by 1. The overall VIBE leadership index was also stable with 72 compared to 73 in 2017. Furthermore, the sub-indices results of the 4 VIBE pillars have helped our senior leaders to identify appropriate focus areas for the year ahead.

With a participation rate of 75 % we almost achieved our goal of an 80 % response rate.

Clear and transparent results communications and an active involvement in follow up processes at all levels, underpin the TUIgether survey philosophy. There are many ways we deliver on these principles. The results and follow up phase starts with a presentation of the TUI Group overall results to the Group Executive Committee. There is also a clear expectation towards the leaders at all levels to share the results with their own teams and co-create action plans based on the findings.

The inclusion of TUIgether on the Senior Leadership Team conference agenda also demonstrates the level of importance the Group Executive Committee places on TUIgether. Regular follow up at senior leadership meetings ensures momentum progressing initiatives is maintained throughout the year. The Supervisory Board also receives results presentations and updates over the course of the year. All these measures combine to set an appropriate leadership focus on maximising benefit from the survey as a tool to help improve business performance and employee engagement.

Furthermore, the TUIgether results are communicated to our employees via different channels. The team results are communicated to the managers who share and discuss these together with their employees in workshops. The overall results are also published in our group intranet. In the course of the already established 'TUIgether chats', employees have the possibility to discuss with and raise questions directly to Board members. A new initiative is 'TUIgether Heroes'. This campaign aims at raising awareness of specific actions taken at local business level and sharing best practices.

Our sustained commitment to TUIgether and delivering a transparent and comprehensive range of follow up activity has now established our employee survey as the principle instrument for receiving feedback and supporting continuous business improvement across TUI.

EMPLOYER BRANDING

By creating a uniform employer brand, TUI is seeking to position and establish itself as an attractive employer. The overall goal of our HR strategy, 'The best company to work for', provided the framework for developing and launching an employer branding campaign. With this campaign, we aim to attract and recruit the best talents. Our transformation into a more digital company characterised by stronger networking and integration, is reflected in the campaign by the active use of different digital channels and our homogeneous approach to job advertisements. Having been implemented in Germany in the prior financial year, the campaign was rolled out to other regions such as Western Region and TUI Destination Experiences in the period under review. It will shortly be extended to further countries.

ONESHARE

OneShare is another strategic project aimed at increasing employee engagement and loyalty. Participation in this programme offers employees around the world the opportunity to subscribe to shares from a joint employee share programme in the long term. The goal is to offer them an attractive investment opportunity while strengthening their identification with TUI. OneShare, launched in 2017 with a total of 18 countries, was successfully rolled out to six additional countries in the reporting period. In addition, the new 'Golden Shares' were offered for the first time in 2018. Every participant received 12 additional shares on top of their investment, regardless of the amount invested. In 2018, the rate of participation was 14.1 %, significantly exceeding the target of 10 %. This result reflects the high attractiveness of the offer for our employees.

PEOPLE DEVELOPMENT

Our success depends on qualified and engaged employees. People Development is therefore one of the key elements of TUI's HR strategy. Within this area, we have launched a number of projects and programmes to develop specialists and executives in anticipation of future needs, increase diversity within the workforce and promote different career paths.

GREAT PLACE TO GROW

A key milestone in People Development was the Group-wide establishment of the global performance and talent management approach 'Great Place to Grow', supported by the IT platform TUI People.

'Great Place to Grow' is a three-stage, structured dialogue process between managers and their employees. The first step is the annual planning process of individual goals and development opportunities for the new financial year. The mid- and the year-end dialogue serve to review the individual progress towards the goals and the employee's current development. The dialogue focuses on the respective tasks and objectives, individual potentials and the implementation of TUI's values in the employee's day-to-day activities. Due to clear guidelines and definitions, 'Great Place to Grow' secures a uniform understanding of performance, potential and development perspectives, greater transparency and visibility of high potentials, and selective succession management.

The 'Great Place to Grow' annual cycle also includes the implementation of 'Talent Calibration Panels'. Within these, Executives and HR validate and calibrate jointly the performance and potential assessments of employees in their areas. The results achieved for each area also form the basis for the creation of a succession plan.

LEARNING@TUI

TUI sees itself as a learning organisation. We provide regular training and learning sessions to offer our employees personal and technical development opportunities and prepare them for future tasks thoroughly. In order to enhance the dialogue between the companies and segments within TUI and to encourage people to learn from one another and with each other, we carried out a Group-wide Learning Week 'newWork@TUI – TUI as a Learning Organisation' in the established format. One of the key topics was digital transformation, which becomes increasingly important in the field of learning. Apart from numerous e-learnings and online training sessions, we also operate our TUI Academies, which offer online training programmes for selected areas. In addition to this, we provide individual, digital learning opportunities at the local level, e. g. online libraries and digital learning hubs.

In the new financial year, we will also launch the TUI People learning module. With this common platform based on state-of-the-art technology, 'anytime, anywhere' access and high-quality personalised, innovative and intuitive learning programmes, we are aiming to optimally qualify our employees and comprehensively support them in exercising their tasks. Moreover, the joint use of learning schemes delivers synergies and ensures compliance with specific legal requirements within the World of TUI.

SUCCESSION PLANNING & TALENT MANAGEMENT

Foreseeing succession planning is essential for the success of our Company. In order to secure succession for critical business functions and key roles in line with the respective demands, a specific succession plan for the top management levels was adopted this year. It sets out short-, medium- and long-term succession so that appropriate resources are available at any time if necessary. The status of succession planning is regularly reported to the Supervisory Board.

In order to secure and build a pipeline of specialist and leadership talent, TUI operates a number of programmes including the Group-wide 'International Graduate Leadership Programme' as well as already established global programmes like 'Global High Performance Leadership', 'Perspectives' and 'Horizons'. In addition, a variety of measures are implemented at local level to develop expert and managerial skills.

INTERNATIONAL CAREERS / GLOBAL 360

TUI aims to foster international careers and promote employee mobility within the Group. Therefore, the 'Global 60' programme was initiated in 2016. Interested employees are given the opportunity to make their next career move in another country to gain international work experience, benefit from immersion in another culture and learn about TUI Group from a different perspective. The programme also aims to encourage managers to look beyond their own market when recruiting talents.

At the 'Global 60 Conference' held at the end of 2017, the participants of the first 'Global 60' programme year met Executive Board members to discuss the pros and cons of international careers and to formulate recommendations for future programme development and ways to translate it into 'business as usual'. One result of the conference was that the programme was renamed 'Global 360'. The new name reflects TUI's internationality and 360-degree view of international careers at all levels and in all functions of the organisation. It also reflects the diverse impacts of the project on culture, operations as well as on the exchange of experience between the source markets and different functions. Thus, the initiative also drives cultural change at TUI towards a more globalised world of work.

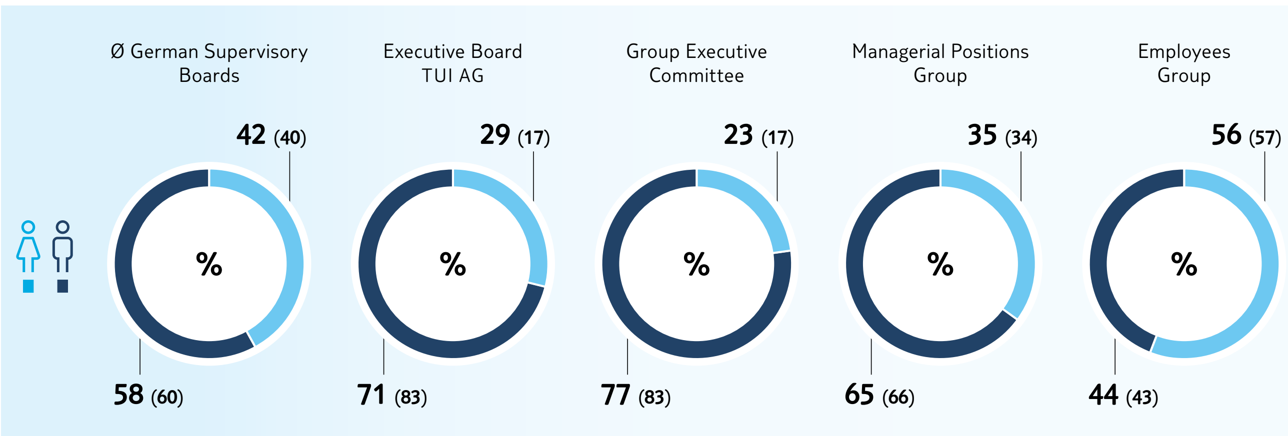
In the period under review, 44 employees agreed to participate in 'Global 360' to gain new professional, personal and cultural experiences.

DIVERSITY@TUI

Group-wide, the proportion of women in the overall headcount reduced slightly from 56.6 % to 55.7 %. The main focus of our Diversity activities is to increase the proportion of women in managerial functions. The women's share of managerial functions has continued to develop positively from 34.1 % to 34.5 %.

The proportion of women on our German supervisory bodies also continued to rise in the period under review. On 30 September 2018, women accounted overall for almost 42 % of members, up by around 2 percentage points year-on-year.

Proportion of Women



In brackets: previous year

In Germany, advantage was taken of the self-commitment mechanism provided for under the German Stock Corporation Act (AktG) and the Act on Limited Liability Companies (GmbHG) to fix specific targets for TUI AG, TUI Deutschland and TUI fly in FY 2015. In the period under review, nearly all targets were achieved. For 2020, targets were fixed for these companies under the self-commitment mechanism. Regular reports on the status quo are presented to the Executive Board.

See Declaration on Corporate Governance and Corporate Governance Report on page 112

TUI initiated measures aimed at increasing the number of women in leadership functions in the long term. These include incorporating at least one woman in the short list for new roles or replacements within the Senior Leadership Team.

Proportion of women in managerial positions

in %	**30 Sep 2018**	30 Sep 2017	Target 2020
TUI AG			
Supervisory Board	35	35	30
Executive Board	2 women	1 woman	at least 1 woman
First management level below Executive Board	24	18	20
Second management level below Executive Board	24	24	30
TUI Deutschland			
Supervisory Board	56	50	30
Executive Board	20	25	25
First management level below Executive Board	28	36	30
Second management level below Executive Board	48	39	40
TUI fly			
Supervisory Board	33	33	30
Executive Board	0	0	20
First management level below Executive Board	25	43	30
Second management level below Executive Board	42	42	40

A further focus is on reconciliation of family and work life. TUI offers its employees a number of attractive schemes to reconcile the demands on their professional and private lives. These include flexible working time models such as flexitime, part-time work, sabbaticals but also mobile working. We furthermore support our employees when they are caring for children or other family members. All of TUI's activities in this field are in line with local requirements and circumstances.

EMPLOYEE INDICATORS

In the period under review, TUI Group's total headcount grew by 4.5 %, above all due to the acquisition of Destination Management from Hotelbeds Group.

Personnel by segment

	30 Sep 2018	30 Sep 2017 restated	Var. %
Hotels & Resorts	27,643	26,313	+ 5.1
Cruises*	328	316	+ 3.8
Destination Experiences	8,469	5,412	+ 56.5
Holiday Experiences	36,440	32,041	+ 13.7
Northern Region	12,513	14,196	– 11.9
Central Region	10,389	10,276	+ 1.1
Western Region	6,595	6,523	+ 1.1
Markets & Airlines	29,497	30,995	– 4.8
All other segments	3,609	3,541	+ 1.9
TUI Group	**69,546**	**66,577**	**+ 4.5**

* Excludes TUI Cruises (JV) employees. Cruises employees are primarily hired by external crew management agencies.

HOTELS & RESORTS

Due to the continued growth strategy in Hotels & Resorts, the headcount rose by 5.1 % to 27,643 employees. The launch of new hotel resorts and the inclusion of additional destinations resulted in staff increases. Riu Group reported a slight increase in its headcount by 2.0 % to 12,336. While new hotels were opened, for instance in Tanzania, a number of hotels were closed in the Dominican Republic and St Martin. The number of employees working for Robinson grew by 1.5 % to 3,945, wheras Other Hotels rose to 1,536. This was primarily due to the continued expansion of the TUI Blue brand. The number of employees working for Northern Hotels increased slightly by 2.4 % to 9,826.

CRUISES

The headcount in the Cruises segment grew by 3.8 % year-on-year to 328. The increase was primarily attributable to the newbuild projects in the expedition cruise segment and a slight build-up in staff numbers working for Marella Cruises.

TUI DESTINATION EXPERIENCES

The Destination Experiences segment reported a headcount growth of 56.5 % to 8,469 compared to the previous financial year. The increase was primarily attributable to the acquisition of Destination Management from Hotelbeds Group. Staff numbers also rose due to the organisational transfer of employees from the UK.

NORTHERN REGION

Northern Region recorded a decline in its headcount of 11.9 % to 12,513 in the period under review. It mainly resulted from the organisational transfer of employees from the UK to TUI Destination Experiences.

CENTRAL REGION

The headcount in Central Region was almost flat year-on-year at 10,389 as at the balance sheet date. In Germany and Austria, staffing numbers remained more or less constant. Switzerland reported a slight increase in its headcount to 509 employees. Due to the opening of new shops, staff numbers rose, in particular in Poland, which recorded an increase to 671 employees.

WESTERN REGION

Compared to the previous financial year, the headcount in Western Region grew by 1.1 % to 6,595. Staffing numbers rose in the Netherland airline and Belgium airline. On the other hand, the number of employees working in France decreased.

ALL OTHER SEGMENTS

At 3,609 employees, the headcount in the category All Other Segments was nearly flat year-on-year. The number of employees working for the Corporate Centre rose by 9.3 % to 317, above all as new functions were built up. The number of employees working for Head Office functions in the UK grew by 4.5 % to 299. Due to organisational changes in India, Future Markets reduced its headcount by 21.1 % to 359.

Personnel by region*

	30 Sep 2018	30 Sep 2017	Var. %
Germany	10,345	10,274	+ 0.7
Great Britain	11,770	13,354	– 11.9
Spain	9,952	9,607	+ 3.6
Other EU	22,594	20,911	+ 8.0
North and South America	5,005	4,535	+ 10.4
Other regions	9,880	7,896	+ 25.1
TUI Group	**69,546**	**66,577**	**+ 4.5**

* By domicile of company

At 79 %, the majority of our employees are employed in Europe. The reported decline of employees in Great Britain to 17 % is mainly attributable to an organisational transfer of employees to TUI Destination Experiences. The number of employees working in Germany amounted to around 15 %, followed by Spain with around 14 %.

Due to the acquisition of Destination Management from Hotelbeds Group, TUI operates in 11 additional countries. This particularly explains the increase of employees outside Europe.

Other employee indicators

	TUI Group		Germany	
in %	**30 Sep 2018**	30 Sep 2017	**30 Sep 2018**	30 Sep 2017
Employment structure				
Number of employees	69,546	66,577	10,345	10,274
Employees, female	55.7	56.6	68.4	68.4
Females in managerial positions	34.5	34.1	35.4	33.9
Employees in part-time, total	16.4	17.3	38.8	37.9
Employees in part-time, female	25.6	26.2	49.1	47.8
Employees, fixed-term employment contract	28.4	30.0	12.7	14.2
Age structure				
Employees up to 20 years	4.8	5.1	2.8	3.1
Employees 21 – 30 years	29.3	30.1	19.6	20.1
Employees 31 – 40 years	26.6	26.4	22.3	22.9
Employees 41 – 50 years	23.8	23.7	30.1	30.8
Employees more than 50 years	15.5	14.7	25.2	23.1
Company affiliation				
up to 5 years	55.7	54.0	34.1	33.6
6 – 10 years	13.9	14.9	11.7	12.8
11 – 20 years	20.4	20.8	30.2	30.8
21 – 30 years	8.0	8.3	19.1	17.9
more than 30 years	2.0	2.0	4.9	4.9
Vocational training in Germany				
Number of trainees	–	–	565	571
Trainees, female	–	–	77.5	79.0
Training rate	–	–	5.5	5.6
Number of trainees gained certification in finanical year	–	–	190	193
Hiring rate	–	–	71.6	73.1

Personnel costs

€ million	2018	2017	Var. %
Wages and salaries	1,982.3	1,896.4	+ 4.5
Social security contributions	299.7	293.0	+ 2.3
Pension costs	154.3	167.6	– 7.9
Total	**2,436.3**	**2,357.0**	**+ 3.4**

The pay package offered by TUI Group is made up of various components, reflecting the framework conditions in different countries and companies. It also reflects the appropriateness of remuneration and customary market rates. Depending on the function concerned, a fixed basic salary may go hand in hand with variable components. TUI Group uses these variable factors to honour individual performance and to enable employees to participate in the Company's strategic and long-term success. Moreover, senior management have share options and are thus able to benefit directly when the Company grows in value.

In the period under review, TUI Group's personnel costs increased by 3.4 % to € 2,436 m. The year-on-year increase in expenses for wages and salaries was mainly attributable to higher staff numbers in operating areas as well as pay rises.

OTHER HR AREAS

PENSION SCHEMES

Many TUI Group companies offer their employees pension schemes in the form of direct insurance contracts and individual or direct commitments to build up a private pension, or they pay additional contributions to pension schemes for their employees. In Germany, collective contracts have been concluded in order to meet the legal entitlement to deferred compensation. These schemes were devised to take advantage of fiscal and social security opportunities, particularly for employee-funded company pension schemes through direct insurance.

PART-TIME EARLY RETIREMENT

To further increase the flexibility of their company HR and succession planning, Group companies in Germany are able to make use of the opportunities provided under the German Part-Time Early Retirement Act, enabling people to shift gradually from employment to retirement. This opportunity is partly supported by current collective bargaining contracts and company agreements, and is increasingly being taken up. At the balance sheet date, € 9.4 m was provided through a capital investment model for the 227 employees working under part-time early retirement contracts in order to hedge their accrued assets against employer insolvency.

GLOBAL EMPLOYMENT STATEMENT

A further milestone achieved during the period under review was the resolution to publish a Global Employment Statement. It is aimed at fair and respectful treatment of employees at all levels and compliance with applicable law and industrial standards. Our TUI Global Employment Statement aims to make a Group-wide commitment to promote human rights, no discrimination, no forced labor, no child labour, salaries and benefits, freedom of association and collective bargaining, health and safety, diversity as well as people development and feedback culture. This commitment should be applied both to our own employees and those of our contractual partners.

EMPLOYEE REPRESENTATIVES

TUI Group has a large number of co-determination bodies at a national and international, company and supra-company level. They include local works councils, company works councils and the Group Works Council. The members of these bodies represent the interests of our Group's employees in Germany. Through their statutory rights of participation and initiative, they ensure representation of the interests of employees on all issues and projects of relevance to staff members and compliance with employee rights.

The Group Works Council is the top-level body for representing the interests of employees in German companies in accordance with legislation on industrial relations. In FY 2018, it consisted of 28 members from 21 companies. By delegating their representatives to the Group Works Council, the respective bodies obtain continuous and up-to-date information about structural and operational challenges within the Group. Due to their co-determination activities and their active participation in response to the needs and issues that call for action, they have a high penetration rate among the Group's employees. In this context, both the Group Works Council and the local works councils in Germany have made an important contribution to the implementation of the HR strategy through the conclusion of accompanying works council agreements.

A key project was the conclusion of an agreement on the launch of long-term worktime accounts for German Group companies. This has laid the basis for employees to take up options for paid time off later in their career in the form, for example, of early retirement or a sabbatical. The next step is to implement the model.

At a European level, TUI's Europe Forum ensures a proper process of information and consultation on cross-border issues affecting the interests of employees in at least two member states of the European Economic Area (and Switzerland). TUI's Europe Forum represents the interests of employees in companies abroad, thereby performing important work in supporting the companies and integrating their employees. In FY 2018, 45 employee representatives from 14 countries were delegated to the Forum. The area of focus of the TEF in the period under review included the establishment of a cross-border Group Occupational Health Management system and various strategic projects in European countries.

Security, Health & Safety

In the reporting period, TUI AG's Group Security, Health & Safety (Group SHS) team continued to refine our holistic, Group-wide safety concept for customers and employees, the Company's reputation and assets. Dialogue on a regular basis with our subsidiaries and Group departments provides the basis for professional safety management in line with needs and requirements. Group SHS focuses on pro-active and sustainable action. It continually monitors and analyses developments in the destinations, prepares response measures and manages exceptional situations. In conjunction with subsequent follow-up measures (lessons learnt and process adjustments), this cycle is implemented as a continuous, interconnected process.

The period under review saw the development and implementation of standardised, Group-wide frameworks such as guidelines, operational instructions and processes. They ensure fast and pertinent responses to safety-critical events and pro-active protection from risks.

Examples include guidelines for safety measures within Hotels & Resorts, for business travel or for event and crisis management. These frameworks are based on a holistic risk analysis, taking account of incidents, nature-related, social and political developments in destinations, health-related information and safety-relevant briefings from government agencies. They form the basis for advice provided by Group SHS, e.g. in the form of safety training, consulting, defined actions or planning documents.

The frameworks are applicable group-wide. Shareholdings in which management control does not lie with TUI AG, are advised to implement the frameworks. On this basis, security and safety functions across the Group cooperate within a network coordinated by Group SHS. This ensures full Group coverage and a coordinated approach on safety-related issues tailored to the needs of the activities concerned.

Implementation of these safety standards is ensured by regular trips to destinations and to our Hotels & Resorts for the purposes of consultancy and evaluation. In the period under review, Group SHS carried out fifteen evaluation visits to various destinations. Apart from obtaining local insights into the safety standards of our hotels, this dialogue with hotel managers and with representatives of both TUI Destination Experiences and safety and tourism authorities provides an overview of the destination concerned and the challenges it poses to TUI as an integrated travel group. Reporting to management creates the opportunity to initiate and orchestrate further measures.

In the reporting period, numerous audits embedded in the quality assurance process were carried out. Apart from safety audits, Group SHS launched around 5,400 safety and security audits.

In addition to this consultancy work, particular weight is attached to professional development and awareness-building for our own staff. Travel agency and airport station staff received additional safety and security advice tailored to their specific areas of activity.

TUI AG operates a Group-wide event and crisis management system. It was successfully applied, for instance, in connection with tropical storms, earthquakes and wildfires as well as health-relevant events. Apart from aggregating data and analysing the local situation, our event management frameworks ascertain how guests and employees are affected and what support they need, as well as coordinating with local public agencies, European bodies and other partners. 24/7 control centres form the basis for fast and pertinent responses to critical events. Appropriate reporting ensures that management is informed and continually updated on all key events and developments.

Compliance / Anti-corruption and anti-bribery

Details of TUI Group's anti-corruption and anti-bribery measures are presented in the Corporate Governance section on Compliance from page 125 in the present Annual Report.

ANNUAL FINANCIAL STATEMENTS OF TUI AG

Condensed version according to German Commercial Code (HGB)

Earnings position of TUI AG

The annual financial statements of TUI AG were prepared in accordance with the provisions of the German Commercial Code (HGB), taking account of the complementary provisions of the German Stock Corporation Act (AktG), and audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Hanover. They are published in the federal gazette. The annual financial statements have been made permanently available on the Internet at www.tuigroup.com and can be requested in print from TUI AG.

In the present Annual Report, the Management Report of TUI AG has been combined with the Management Report of TUI Group.

Income statement of TUI AG

€ million	**2018**	2017	Var. %
Turnover	122.7	45.4	+170.3
Other operating income	326.4	392.6	–16.9
Cost of materials	7.7	7.6	+1.3
Personnel costs	67.9	49.9	+36.1
Depreciation	1.3	1.0	+30.0
Other operating expenses	349.3	500.4	–30.2
Net income from investments	1,010.0	933.3	+8.2
Write-downs of investments	128.8	58.1	+121.7
Net interest	5.2	8.7	–40.2
Taxes on income and profit	–67.2	15.7	n.a.
Profit after taxes	**976.5**	**747.3**	**+30.7**
Other taxes	–6.9	5.6	n.a.
Net profit for the year	**983.4**	**741.7**	**+32.6**

The earnings position of TUI AG, the Group's parent company, is primarily determined by the appropriation of profits by its Group companies, either directly associated with TUI AG via profit and loss transfer agreements or distributing their profits to TUI AG based on relevant resolutions.

TURNOVER AND OTHER OPERATING INCOME

The increase in turnover in the financial year under review mainly resulted from higher licensing revenue due to the launch of a changed licensing fee model. The decline in other operating income was primarily attributable to a year-on-year decline in gains on exchange. This income was offset by expenses for exchange losses of a similar amount, carried in other operating expenses. Apart from the gains on exchange, other operating income primarily included income from the elimination of intercompany services, carried alongside expenses of almost the same amount passed on to TUI AG from other Group companies, also carried in other operating expenses.

EXPENSES

Personnel costs rose versus FY 2017. Pension expenses increased primarily due to transfers to pension provisions. The increase in personnel costs was driven in particular by bonus payments and share options from multi-year remuneration models for members of the boards.

Other operating expenses mainly comprised the cost of financial and monetary transactions, charges, fees, services, transfers to impairments, other administrative costs as well as expenses for exchange losses and the intercompany elimination of services. Other operating expenses declined in particular due to the decrease in expenses for exchange losses.

NET INCOME FROM INVESTMENTS

In the financial year under review, TUI AG's net income from investments was driven by the distribution of profits by TUI Cruises GmbH and by TUI Travel Holdings via TUI Travel Ltd. in the context with the acquisition of TUI Nordics Holding AB. Net income from investments also included income from profit transfers from hotel companies and companies allocable to central operations. It also comprised expenses for loss transfers from Group companies, resulting in a corresponding reduction in net income from investments. Loss transfers increased year-on-year.

WRITE-DOWNS OF INVESTMENTS

In the period under review, write-downs of investments mainly related to write-downs of a subsidiary allocated to central operations as well as an investment in a Turkish hotel. In the period under review, write-downs were also effected on loans to Group companies.

INTEREST RESULT

The decline in the interest result was partly attributable to an increase in interest expenses (to affiliated companies). This effect was not fully offset by the increase in non-current loans to Group companies by TUI AG and the associated interest income.

TAXES

In the period under review, taxes related to income taxes and other taxes. They did not include any deferred taxes.

NET PROFIT FOR THE YEAR

For FY 2018, TUI AG posted a net profit for the year of € 983.4 m.

Net assets of TUI AG

TUI AG's net assets and financial position as well as its balance sheet structure reflect its function as the TUI Group's parent company. The balance sheet total rose by 6.1 % to € 10.4 bn in FY 2018.

Abbreviated balance sheet of TUI AG (financial statement according to German Commercial Code)

€ million	**30 Sep 2018**	30 Sep 2017	Var. %
Intangible assets / property, plant and equipment	21.9	19.4	+12.9
Investments	7,998.8	7,078.9	+13.0
Fixed assets	8,020.7	7,098.3	+13.0
Receivables / Trade securities	1,470.5	1,644.4	–10.6
Cash and cash equivalents	889.3	1,039.0	–14.4
Current assets	2,359.8	2,683.4	–12.1
Prepaid expenses	0.5	0.7	–28.6
Assets	**10,381.0**	**9,782.4**	**+ 6.1**
Equity	5,801.5	5,192.7	+11.7
Special non-taxed items	0.1	0.1	–
Provisions	361.9	462.5	–21.8
Bonds	300.0	300.0	–
Other liabilities	3,917.4	3,827.1	+2.4
Liabilities	4,217.4	4,127.1	+2.2
Liabilities	**10,381.0**	**9,782.4**	**+ 6.1**

FIXED ASSETS

At the balance sheet date, fixed assets almost exclusively consisted of investments. The increase in investments was mainly attributable to the acquisitions of TUI Nordic Holding AB and TUI Portugal SA as well as the implementation of capital increases by subsidiaries.

CURRENT ASSETS

The decrease in current assets of 12.1 % to € 2,359.8 m was mainly driven by the decline in cash and cash equivalents and receivables / securities, which had included short-term money market funds in the prior year.

TUI AG'S CAPITAL STRUCTURE

EQUITY

TUI AG's equity increased by € 608.8 m to € 5,801.5 m. The subscribed capital of TUI AG consists of no-par value shares, each representing an equal portion in the capital stock. The proportionate share in the capital stock per share is around € 2.56. At the end of FY 2018, the subscribed capital of TUI AG rose due to the issue of employee shares. At the end of the financial year under review, subscribed capital comprised 587,901,304 shares.

In FY 2018, capital reserves rose by € 5.9 m due to the issue of employee shares and share-based payments. Revenue reserves exclusively consisted of other revenue reserves. The Articles of Association do not contain any provisions concerning the formation of reserves.

The profit for the year amounted to € 983.4 m. Taking account of the profit carried forward of € 814.0 m, net profit available for distribution totalled € 1,797.4 m. A proposal will be submitted to the Annual General Meeting to use the net profit available for distribution for the financial year under review to distribute a dividend of € 0.72 per no-par value share and to carry the amount of € 1,374.1 m, remaining after deduction of the dividend total of € 423.3 m, forward on new account. The equity ratio rose to 55.9 % (previous year 53.1 %) in FY 2018.

PROVISIONS

Provisions decreased by € 100.6 m to € 361.9 m. They consisted of pension provisions worth € 144.5 m (previous year € 136.0 m), tax provisions worth € 122.6 m (previous year € 196.1 m) and other provisions worth € 94.8 m (previous year € 130.4 m).

While pension provisions rose slightly year-on-year in the financial year under review, tax provisions and provisions for invoices outstanding, personnel costs and other risks declined versus the prior year.

LIABILITIES

TUI AG's liabilities totalled € 4,217.4 m, up by € 90.3 m or 2.2 %.

In October 2016, TUI AG issued an unsecured bond worth € 300.0 m maturing in October 2021. TUI AG used the proceeds from the issue of this bond to cancel and repay a five-year bond issued in September 2014 ahead of its maturity date. In July 2018, TUI AG issued an unsecured Schuldschein with banks with a total volume of € 425.0 m for general corporate financing purposes with different tenors of five to ten years.

The increase in liabilities was mainly driven by the transactions of the TUI AG subsidiaries included in its cash pool.

TUI's net financial position (cash and cash equivalents as well as marketable securities less bonds and Schuldschein) declined year-on-year, amounting to a clearly positive position of € 164.3 m in the period under review.

CAPITAL AUTHORISATION RESOLUTIONS

Information on new or existing resolutions concerning capital authorisation, adopted by Annual General Meetings, is provided in the next chapter on Information Required under Takeover Law.

TUI SHARE

TUI share has gained 61 % since the merger with TUI Travel

The TUI share has outperformed significantly over the four-year period. The share's Total Shareholder Return (TSR) has increased by 61 % since the announcement of the merger with TUI Travel in June 2014, considerably outperforming the FTSE 100 (+ 31 %) and DAX 30 (+ 23 %) indices. In a market environment characterised by macroeconomic and geopolitical challenges, TUI Group delivered the total announced merger synergies of € 100 m, accelerated the Group's transformation as a leading provider of holiday products and launched important digitalisation initiatives. During that period, the Group has paid dividends worth around € 1.6 bn to its shareholders (including the dividend proposal for FY 2018) and increased its operating result by more than 10 % on a constant currency basis for the fourth consecutive year. The share price performance demonstrates TUI Group's strong positioning as a leading provider with own hotel and cruise products and unique holiday experiences with its own direct distribution. Our strategy of double diversification, i. e. our balanced portfolio of markets and destinations, creates resilience and enables us to flexibly respond to different market conditions. It forms the basis for the further implementation of our growth roadmap.

TUI share continues considerable outperformance in FY 2018

The TUI share started off the current financial year at a price of € 14.53. Supported by strong business results, further progress in the transformation of the Group and the presentation of new digitalisation strategy, the TUI share gained significantly in the course of the year. Shortly after the Capital Markets Day for analysts and investors with a special focus on the cruise segment, the share price closed at its full year high of € 20.66 on 17 May 2018.

The market environment was subsequently characterised by external challenges: On the one hand, it was adversely affected by flight disruptions, driven primarily by air traffic control strikes in France. On the other hand, customers' booking behaviour was impacted by the sustained period of exceptionally hot weather in Northern Europe this summer. TUI's share also saw impact from announcements of lowered profit guidance by other travel and tourism companies. Moreover, the trade dispute between the US and China as well as Turkey intensified further, causing increasing uncertainty in the international capital markets and, among others, a strong fall in the Turkish lira.

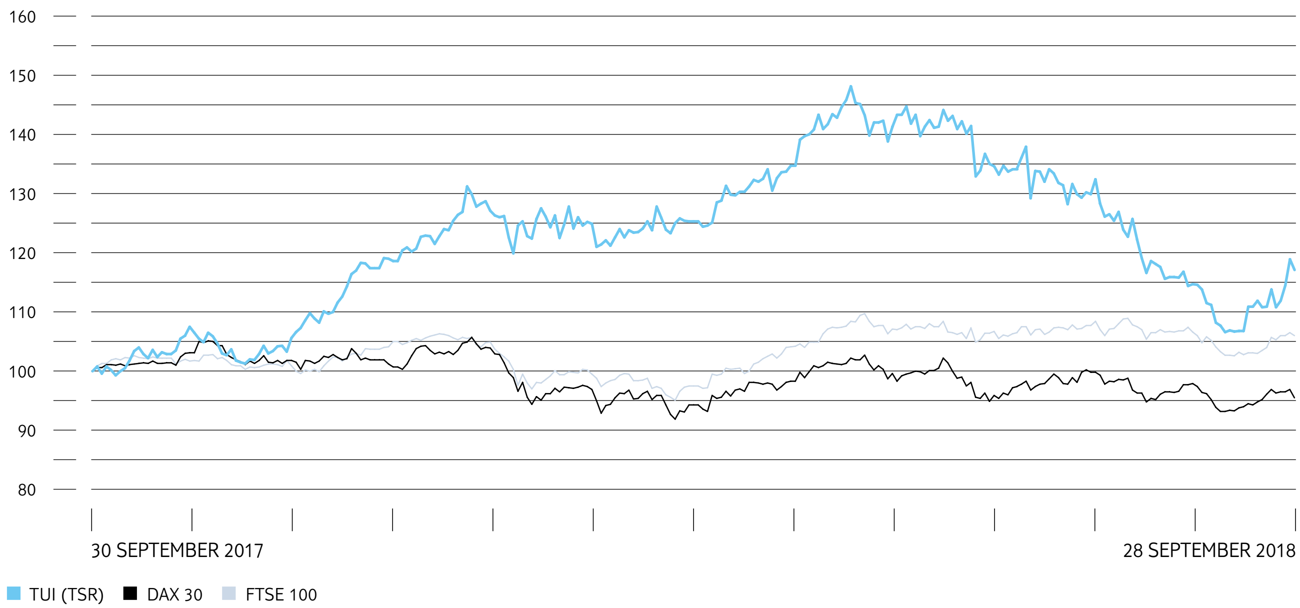
At the end of the financial year under review, the TUI share turned positive again, benefiting from high booking numbers and the reiteration of the operating profit guidance at constant currency. This further demonstrates the strength and resilience of our transformed business model in a challenging environment. The Total Shareholder Return of the TUI share rose by a total of 17 % in 2018, while FTSE 100 only gained 6 % and DAX 30 lost around 5 %.

TUI share data

30 September 2018		
WKN		TUAG00
ISIN		DE000TUAG000
Stock exchange centres		London, Xetra, Hanover
Reuters / Bloomberg		TUIGn.DE / TUI1.GR (Frankfurt); TUIT.L / TUI:LN (London)
Stock category		Registered ordinary shares
Capital stock	€	1,502,945,818
Number of shares		587,901,304
Market capitalisation	bn €	9.7
Market capitalisation	bn £	8.7

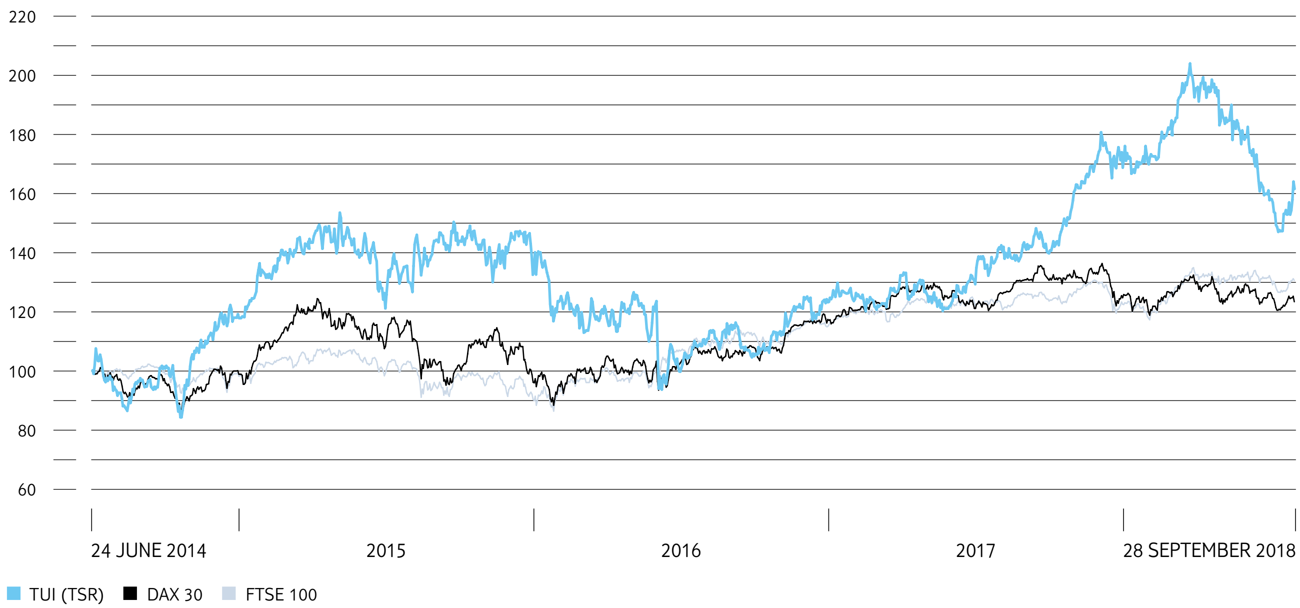
TUI share price (FY 2018)

in %



TUI Share price since the merger announcement of TUI AG with TUI Travel PLC

in %



Long-term development of the TUI share (Xetra)

€	2014	2015	2016	2017	**2018**
High	6.97	17.71	17.21	14.90	20.66
Low	3.14	9.84	10.17	11.46	14.34
Year-end share price	6.70	16.35	12.69	14.38	16.56

Quotations, indices and trading

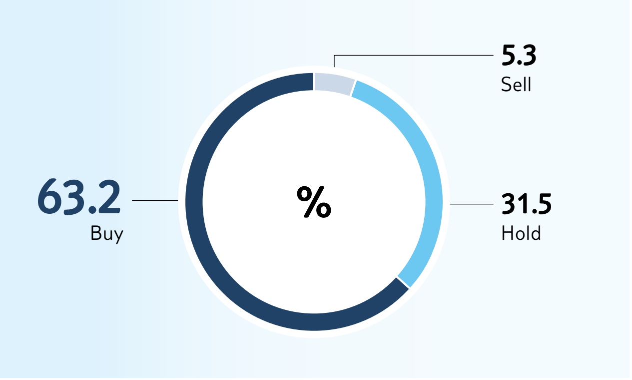
The TUI share has its primary listing in the Premium segment of the Main Market of the London Stock Exchange and is included in FTSE's UK Index Series including FTSE 100, the UK's major share index. It also has a secondary listing in the electronic trading system Xetra and at the Hanover Stock Exchange.

TUI AG is represented in the sustainability index FTSE4Good and on the Ethibel Investment Register. In 2018 TUI was included in the RobecoSam Sustainability Yearbook with a 'Silver Class' distinction. TUI participated again in the CDP Climate Change assessment 2018, results being announced in early 2019.

In FY 2018, the average daily trading volume at the London Stock Exchange was around 1.3 million shares, while about 0.6 million shares were traded on Xetra. Across all trading platforms, the trading volume in the UK amounted to around 3.4 million shares, with around 1.8 m shares traded in the euro line. Both the sterling and the euro lines thus delivered strong liquidity for trading by institutional and retail investors.

Analyst recommendations

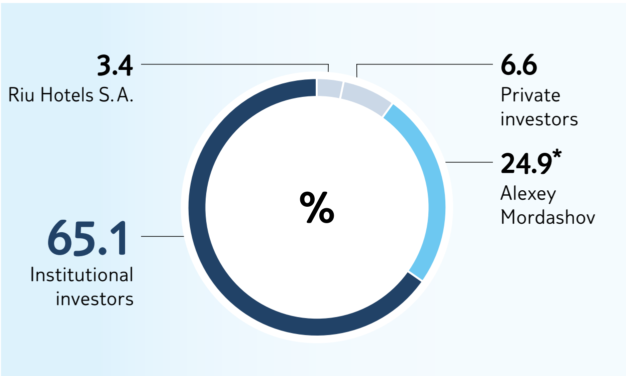
Analysts' Recommendations (30 SEPTEMBER 2018) in %



Analysis and recommendations by financial analysts are a key decision-making factor for institutional and private investors. In the financial year under review, more than 20 analysts regularly published studies on TUI Group. In September 2018, 63 % of analysts issued a recommendation to 'buy' the TUI share, with 32 % recommending 'hold'. One analyst recommended 'sell'.

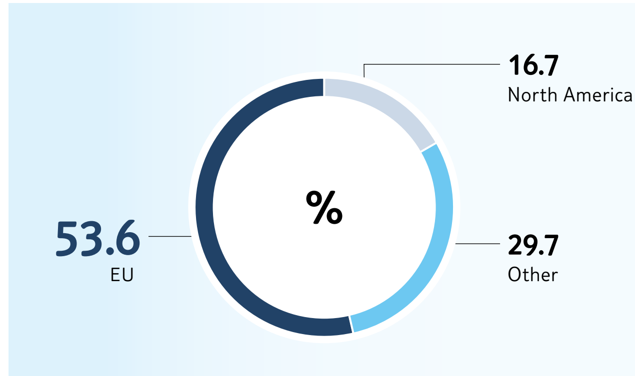
Shareholder structure

Shareholder structure (30 SEPTEMBER 2018) in %



*24.998 %

Geographical shareholder structure (30 SEPTEMBER 2018) in %



The current shareholder structure and the voting right notifications pursuant to section 33 of the German Securities Trading Act are available online at: www.tuigroup.com/en-en/investors/share/shareholder-structure and www.tuigroup.com/de-de/investoren/news

At the end of FY 2018, around 75 % of TUI shares were in free float. Around 7 % of all TUI shares were held by private shareholders, around 65 % by institutional investors and financial institutes and around 28 % by strategic investors. Analysis of the share register shows that most shares are being held by investors from EU countries.

Dividend policy

Development of dividends and earnings of the TUI share

€	2014	2015	2016	2017	**2018**
Earnings per share	+0.26	+0.64	+1.78	+1.10	1.25
Dividend	0.33	0.56	0.63	0.65	0.72

In the framework of the merger with TUI Travel, TUI Group defined a dividend policy under which the dividend increases in line with the growth in underlying EBITA at constant currency. A proposal will therefore be submitted to the Annual General Meeting to distribute a dividend of € 0.72 per no-par value share to the shareholders for FY 2018.

Investor Relations

Open and continuous dialogue and transparent communication form the basis for our Investor Relations work with our private shareholders, institutional investors, equity and credit analysts and lenders. There are three reasons to invest in the TUI share:

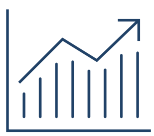
1

STRONG STRATEGIC POSITION

Our integrated business model covers the entire value chain in tourism – from distribution through aviation, accommodation in the hotel or on board the cruise liner all the way to excursions organised by our local incoming agencies in the destinations. TUI covers the entire customer journey to drive customer satisfaction and loyalty and hence profitability. We are convinced that this provides us with a strategic advantage over our competitors.

2

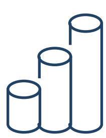
STRONG EARNINGS GROWTH



TUI operates in a growth market and considerably increased its operating result over the past few years thanks to its strong positioning. Underlying EBITA grew by more than 10 % for the fourth consecutive year at constant currency. We will deliver future growth, supported by the further implementation of our growth roadmap and the increasing delivery of the benefits from our digitalisation initiatives.

3

STRONG CASH GENERATION



TUI is characterised by balance sheet stability and strong operating cash conversion. The Group has defined a clear financial policy, improved its coverage ratio* and leverage ratio over the past few years and pays an attractive dividend to its shareholders.

* We define our cash conversion as the difference between underlying EBITDA less net normalised net capex and financial investments in relation to adjusted EBITDA.

More details about Investor Relations online at: www.tuigroup.com/de-de/investoren

In the completed financial year, many discussions were held, centring on the growth strategy for the integrated tourism group, the digitalisation initiatives and the business performance in the individual segments, enabling stakeholders to make a realistic assessment of TUI Group's future development. In this context, TUI's management team sought dialogue with investors at roadshows and conferences in London, Dublin, Frankfurt, Berlin, Munich, Zurich, Vienna, Milan, Madrid, Amsterdam, Brussels, Paris, Oslo, Copenhagen, Tokyo, New York, Boston, Chicago, Montreal and Toronto.

TUI's Investor Relations team also makes every effort to engage in direct contact with private investors. TUI Group's IR team sought dialogue with this target group on many occasions, such as events organised by shareholder associations. Another key platform for exchanges with private shareholders was the IR stall at TUI's Annual General Meeting. TUI also offers a broad range of information for its analysts, investors and private shareholders on its website. All results conference calls were transmitted live and comprehensive information on the Capital Markets Day was presented on the website.

INFORMATION REQUIRED UNDER TAKEOVER LAW

pursuant to sections 289a (1) and 315a (1) of the German Commercial Code (HGB) and explanatory report

Composition of subscribed capital

The subscribed capital of TUI AG consists of no-par value shares, each representing an equal share of the capital stock. As a proportion of the capital stock, the value of each share is around € 2.56.

The subscribed capital of TUI AG, registered in the commercial registers of the district courts of Berlin-Charlottenburg and Hanover, consisted of 587,901,304 shares at the end of FY 2018 (previous year 587,386,900 shares) and totalled € 1,502,945,818.40. Each share confers one vote at the Annual General Meeting.

RESTRICTIONS ON VOTING RIGHTS AND SHARE TRANSFERS

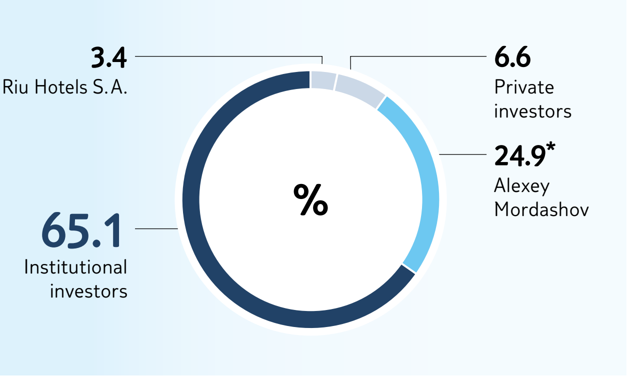
The Executive Board of TUI AG is not aware of any restrictions on voting rights or the transfer of shares.

EQUITY INTERESTS EXCEEDING 10 % OF THE VOTING RIGHTS

The Executive Board of TUI AG has been notified of the following direct or indirect equity interests reaching or exceeding 10 % of the voting rights:

Alexey Mordashov, Russia, notified us on 15 December 2016 pursuant to section 33 (1) of the German Securities Trading Act that the voting shares in TUI AG, Hanover, Germany, attributable to him exceeded the 20 % threshold on 12 December 2016. As per that date, voting shares totalling 20.01 % (or 117,484,579 voting rights) were attributable to Alexey Mordashov pursuant to section 34 (1) sentence 1 no. 1 of the German Securities Trading Act. On the basis of the notifications pursuant to section 19 of the MAR, the voting shares in TUI AG attributable to him amounted to 24.998 % as at 30 September 2018.

Shareholder structure (30 SEPTEMBER 2018) in %



* 24.998 %

At the end of FY 2018, around 75 % of TUI shares were in free float. Around 7 % of all TUI shares were held by private shareholders, around 65 % by institutional investors and financial institutes and around 28 % by strategic investors.

Shares with special rights conferring powers of control

No shares with special rights conferring powers of control have been issued.

System of voting right control of any employee share scheme where the control rights are not exercised directly by the employees

Where TUI AG grants shares to employees under its employee share programme, the shares are directly transferred to the employees (sometimes with a lock-up period). Beneficiaries are free to directly exercise the control rights to which employee shares entitle them, in just the same way as other shareholders, in line with legal requirements and the provisions of the Articles of Association.

Appointment and removal of Executive Board members and amendments to the Articles of Association

The appointment and removal of Executive Board members is based on sections 84 et seq. of the German Stock Corporation Act in combination with section 31 of the German Co-Determination Act. Amendments to the Articles of Association are based on the provisions of sections 179 et seq. of the German Stock Corporation Act in combination with section 24 of the Articles of Association of TUI AG.

Powers of the Executive Board to issue or buy back shares

The Annual General Meeting of 13 February 2018 authorised TUI AG's Executive Board to acquire own shares of up to 5 % of the capital stock. The authorisation will expire on 12 August 2019. The Annual General Meeting of 13 February 2018 adopted a resolution to create authorised capital for the issue of employee shares worth € 30.0 m. The Executive Board of TUI AG is authorised to use this approved capital by 12 February 2023 in one or several transactions by issuing employee shares against cash contribution. In the completed financial year, 514,404 new employee shares were issued, so that the authorised capital totalled around € 28.7 m at the balance sheet date.

The Annual General Meeting of 9 February 2016 adopted a resolution to create conditional capital of € 150.0 m for the issue of bonds. The authorisation to issue bonds with conversion options or warrants as well as profit-sharing rights and income bonds (with or without fixed terms) of up to a nominal amount of € 2.0 bn will expire on 8 February 2021. The Annual General Meeting of 9 February 2016 also adopted a resolution to create authorised capital for the issue of new registered shares against cash contribution worth a maximum of € 150.0 m. The authorisation will expire on 8 February 2021. The Annual General Meeting on 9 February 2016 furthermore adopted a resolution to create authorised capital for the issue of new shares of € 570.0 m against cash contributions or contributions in kind. The issue of new shares against contributions in kind has been limited to € 300.0 m. The authorisation will expire on 8 February 2021.

To date, the authorisations approved in 2016 have not been used.

→ *See (23) Subscribed capital in the Notes on page 206 and (6) Subscribed capitel in the Financial Statements of TUI AG.*

Significant agreements taking effect in the event of a change of control of the Company following a takeover bid, and the resulting effects

Some of TUI AG's outstanding financing instruments contain change of control clauses. A change of control occurs in particular if a third partly directly or indirectly acquires control over at least 50 % or the majority of the voting shares in TUI AG.

In the event of a change of control, the holders of the Schuldschein worth € 425.0 m and of the fixed-interest senior bond worth € 300.0 m must be offered a buyback.

For the syndicated credit line worth € 1.75 bn, of which € 102.4 m had been used via bank guarantees as at the balance sheet date, a right of termination by the lenders has been agreed in the event of a change of control. This also applies to several bilateral guarantee lines with a total volume of £ 85.0 m, concluded with various insurance companies. At the balance sheet date, an amount of £ 27.3 m had been used.

Beyond this, there are no agreements in guarantee, leasing, option or other financial contracts that might cause material early redemption obligations that would be of significant relevance for the Group's liquidity.

Apart from the financing instruments mentioned above, a framework agreement between the Riu family and TUI AG includes a change of control clause. A change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board are attributable to a shareholder group. In the event of a change of control, the Riu family is entitled to acquire at least 20 % and at most all shares held by TUI in RIUSA II S.A. A similar agreement concerning a change of control at TUI AG has been concluded with the El Chiaty Group. Here, too, a change of control occurs if a shareholder group represents a predefined majority of AGM attendees or if one third of the shareholder representatives on the Supervisory Board are attributable to a shareholder group. In that case, the El Chiaty Group is entitled to acquire at least 15 % and at most all shares held by TUI in the joint hotel companies in Egypt and the United Arab Emirates. A change of control agreement has also been concluded for the joint venture TUI Cruises between Royal Caribbean Cruises Ltd and TUI AG for the event that a change of control occurs in TUI AG. The agreement gives the partner the right to demand termination of the joint venture and to purchase the stake held by TUI AG at a price which is lower than the selling price of their own stake.

Compensation agreements have not been concluded between the Company and Executive Board members or employees in the event of a takeover bid.