S&P Global Ratings

Second Party Opinion

TUI's Sustainability-Linked Finance Framework

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Editor's note: This SPO report is based on S&P Global Ratings' "Analytical Approach: Second Party Opinions and Transaction Evaluations" dated Dec. 7, 2022, which was partly superseded by S&P Global Ratings' "Analytical Approach: Second Party Opinions: Use of Proceeds," dated Jul. 27, 2023, following the launch of our integrated use-of-proceeds SPOs.

Germany-based TUI provides fully integrated tourism services through its subsidiaries including sales of flight and cruise tickets, tours, and hotel accommodation as individual components or packaged tours to both wholesale and individual customers. Its portfolio comprises over 400 hotels, 16 cruise ships, 130 aircrafts, 1,200 travel agencies, as well as tour operator brands and online portals. TUI serves 19 million customers annually, mainly in Northern and Central Europe, with Germany and the U.K. the two largest markets. TUI's services extend to about 111 destinations, mainly in the Eastern and Western Mediterranean (including the Canary Islands), but increasingly the Caribbean and Asia. The company is publicly listed with most of its shares in free float. During financial year 2023, the issuer reported underlying EBITDA of more than €1.78 billion and revenues of more than €20.6 billion, while employing 65,000 people.

In our view, TUI's sustainability-linked finance framework, published on Feb. 26, 2024, is aligned with:

- ✔ Sustainability-Linked Bond Principles, ICMA, 2023
- ✔ Sustainability-Linked Loan Principles, LMA/LSTA/APLMA, 2023

Issuer's Sustainability Objectives

In February 2023 TUI published its latest sustainability agenda, defining three priorities and focus areas. These include empowering local communities; developing workforce skills; reducing its environmental footprint; and working with partners and customers to contribute to the sustainable transformation of the tourism sector.

This framework aims to address the issuer's environmental pillar, specifically its climate impact. TUI's 2030 climate targets have been approved by the Science-Based Targets initiative (SBTi) as in line with a well-below 2°C warming scenario, and 1.5°C scenario in the case of TUI's climate target for hotels and resorts, which we consider a strength. The targets cover its airlines, cruises, and hotels and resorts segments, together representing more than 99% of total emissions. TUI aims to reduce its airline emissions intensity per passenger by 24%, its absolute emissions from cruises by 27.5%, and its absolute emissions from hotels and resorts by 46.2%, from 2019 levels. TUI has committed to achieving net-zero emissions by 2050.

TUI has developed this sustainability-linked finance framework to further align its funding strategy with its climate commitments, in particular TUI's decarbonization efforts regarding its airline activity, which we view as highly relevant considering the airlines segment represented 70% of the group's total emissions in 2023. The issuer has confirmed that sustainability-linked instruments under this framework will only be issued at the TUI AG group level.

Selected Key Performance Indicator (KPI) And Sustainability Performance Targets (SPTs)

KPI	SPTs	Baseline	2023 performance
Airline CO2e-Emissions Intensity (in g CO2e/rpk)	SPT 1.1 Reduce CO2e/rpk from TUI airline activities by 11% by 2026. SPT 1.2 Reduce CO2e/rpk from TUI airline activities by 24% by 2030.	80.9 g CO2e/rpk (2019)	76.1 g CO2e/rpk

Second Party Opinion Summary

Selection of key performance indicator (KPI)

Alignment ✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

		Not aligned	Aligned	Strong	Advanced
KPI 1	Airline CO2e-Emissions Intensity			**Strong**	

Calibration of sustainability performance targets (SPTs)

Alignment ✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

		Not aligned	Aligned	Strong	Advanced
SPTs	SPT 1.1 Reduce CO2e/rpk from TUI airline activities by 11% by 2026. SPT 1.2 Reduce CO2e/rpk from TUI airline activities by 24% by 2030.			**Strong**	

Instrument characteristics

Alignment ✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

Instruments under the framework will be subject to various potential changes in the financial characteristics triggered by a failure to achieve the stated SPTs. Such variations and the ultimate characteristics will be specified in the relevant transaction documentations of the instruments to be issued under the framework. The financial instrument could be affected if the issuer has not achieved the SPT by the target observation date, or if it has not reported performance against the targets in a satisfactory manner, or if it has not provided verification of SPT(s) at the target observation date.

Reporting

Alignment ✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

	Not aligned	Aligned	Strong	Advanced
Score			**Strong**	

We consider TUI's overall reporting practices to be strong. TUI commits to disclose the performance of the KPI against the respective SPTs, as well as any relevant information for the assessment of the KPI's performance, including the application of any recalculation procedure, where applicable.

Post-issuance review

Alignment ✔ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

The issuer commits to obtain each year an independent post-issuance verification of its KPI performance from a qualified external verifier. This verification will be published on TUI's website annually, up until the reporting date relevant for assessing the achievement of the SPT(s) used by sustainability-linked finance instruments.

Framework Assessment

Selection of key performance indicator (KPI)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer's sustainability disclosures; and how material it is to the issuer's industry and strategy.

✔ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

KPI 1	Airline CO2e-Emissions Intensity	Not aligned	Aligned	**Strong**	Advanced

We assess this KPI as strong because of its high relevance considering the share of airlines' emissions in the company's total carbon footprint and because its scope, objective, and calculation are clearly articulated in the framework. The KPI tackles a relevant sustainability issue related to air travel's negative environmental impacts. We also view positively that this KPI and its associated targets are integrated into the group's sustainability strategy. However, the KPI is expressed in intensity terms, not absolute terms. Although this is common for the industry, we view it as a limitation because reaching this KPI might still be accompanied by an overall increase in total emissions.

The KPI covers all flights conducted under a TUI airline's flight number, which factors in both revenue and non-revenue flights on TUI's own and ACMI aircrafts. An ACMI lease is a leasing arrangement between airlines, whereby another airline leases the aircraft, crew, maintenance, and insurance to TUI. The KPI's calculation methodology includes greenhouse gas emissions from aviation fuel throughout the lifecycle, comprising carbon dioxide (CO2), methane (CH4), and nitrous oxide (N2O) emissions. To provide CO2e-emissions per revenue passenger kilometer (CO2e/rpk), emissions are divided by the total distance travelled per flight multiplied by the total number of passengers. We view positively that this KPI is considered core under the ICMA KPI registry. We regard TUI's KPI as more complete because it includes well-to-wake emissions, whereas the listed KPI in the registry is formulated in terms of tank-to-wheel emissions, which does not account for some of the jet fuel's value-chain-related emissions. The issuer has confirmed that greenhouse gas emissions and rpks are in scope of the nonfinancial data external assurance received. We view positively that, since 2019, the issuer has received external assurance on the various components that allow it to calculate the KPI.

We note that non-CO2 climate impacts from condensation trails (contrails) is out of the KPI's scope. While most companies in the industry do not report on contrails, we view their potential impact as a material consideration for the sector. The radiative forcing effects of contrails are challenging to measure at an individual flight level because the likelihood of their formation and their persistence varies based on altitude, atmospheric pressure, and air temperature. However, total overall non-CO2 effects from aviation could be at least as important as those of CO2 alone, according to several studies. Therefore, we believe it will be critical for airlines to address them to achieve the sector's decarbonization goals.

According to an external study, the tourism industry accounts for about 8% of global emissions. In 2022 aviation accounted for 2% of global-energy-related CO2 emissions according to the IEA (excluding non-CO2 effects). We therefore consider the KPI to address a material sustainability challenge for the industry. The KPI is also particularly relevant to the issuer's sustainability strategy, considering it is one of its SBTi-validated targets.

The KPI only focuses on greenhouse gas emissions linked to the airline business. This limits our opinion of its materiality considering that TUI AG group is also actively involved in cruises, and hotels and resorts. Nonetheless, the issuer reports that emissions from its airlines represented 70% of the group's total carbon footprint in 2023. We note that TUI excludes from its carbon footprint calculations the scope 3 emissions related to flights performed by other airlines for trips booked with TUI.

Global emissions related to international aviation grew at an average annual rate of 3.4% from 2010 to 2019, according to the latest IPCC report. The implied rate of decrease of emissions intensity by passenger from the 2030 SPT is a compounded annualized rate of 3%. This means the issuer could meet its SPT, meanwhile still increasing absolute emissions if traffic increased at the same rate as in the past decade. Indeed, this would more than offset the implied emissions intensity gains. So while we consider the KPI to be relevant to the issuer's sustainability strategy and to addressing climate transition risks, the fact that it is expressed in relative terms is a limitation in our view. We acknowledge that setting intensity targets is common in the industry, in part due to challenges related to decarbonization in the near term. The SBTi target setting method for the aviation sector is also based on the sector decarbonization approach, which is based on intensity metrics. We also consider that most emissions pathways for the aviation sector expect absolute emissions to rise until at least 2030 before curbing more noticeably.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

		Not aligned	Aligned	Strong	Advanced
SPTs	SPT 1.1 Reduce CO2e/rpk from TUI airline activities by 11% by 2026. SPT 1.2 Reduce CO2e/rpk from TUI airline activities by 24% by 2030.			**Strong**	

We consider the ambition, clarity, and characteristics of the SPTs to be strong. The issuer's framework outlines the strategy to reach the target and presents relevant information about future projects it plans to undertake. TUI also clarifies the intermediary target and the expected observation date. Specifically, TUI aims to reduce by 11% CO2e/rpk from TUI airline activities by 2026 (SPT1.1) and by 24% by 2030 (SPT1.2) from 2019. The issuer also commits to providing annual targets in the context of loan transactions in the terms and conditions of the loan, at issuance.

With respect to historical performance, between 2019 and 2023 TUI's CO2e/rpk showed a compounded annual reduction rate of 1.5% while between 2023 and 2026 the implied annual rate to get to SPT 1.1 is 1.8%. For SPT 1.2, targeted 2030, the expected compounded annual reduction rate is 3% between 2023 and 2030. We note that the ratio's historical performance was affected by pandemic-related decreased passenger traffic, which makes the benchmarking exercise compared to historical performance more challenging. We also consider the framework SPTs to be more ambitious that historical performance. The implied reduction in intensity to reach the SPTs is higher than the achieved compounded annual historical reduction rate between 2019 and 2023, where 2019 and 2023 data were not affected by pandemic-related decreases in traffic.

We understand that the issuer has not conducted a separate benchmark assessment to calibrate the target in relation to peers' targets due to limited information available at the time the target was set. However, in January 2023, TUI Group's SPT 1.2 was approved by SBTi as aligned with the near-term well-below 2ºC scenario, which we consider a strength. Based on February 2024 SBTi data, of the 27 companies in the airlines sector that have a public commitment to set science-based targets, only 14 have obtained an SBTi validation so far. While TUI's SBTi-validated target (SPT1.2) shows a 24% reduction between 2019 and 2030, most validated peers show higher reduction rates. The issuer has said that this difference can be explained by it having a lower baseline year KPI value of CO2e/rpk compared to peers.

We also view positively that TUI has developed an internal emissions reduction roadmap to achieve its climate objective. Planned actions include investing in new aircraft that are more fuel efficient and implementing environmental management systems and operational measures to enhance efficiency, such as route optimizations. Like the rest of the industry, its roadmap also includes securing procurement of sustainable aviation fuel (SAF) supplies.

In our view, SAF availability is a particularly relevant risk for the sector. The EU's climate objectives, and notably the ReFuelEU aviation initiative, will gradually require airlines to use a greater portion of SAFs. Aircraft fuel suppliers at EU airports will distribute a minimum share of 6% of SAFs by 2030. This is likely to lead to increased competition for such types of fuel. We view positively the issuer's efforts to secure SAF supply, notably through already signed memorandums of understanding with Cepsa and Shell. Other material considerations include the feedstock for manufacturing SAFs, which can have varying environmental impacts depending on whether they are waste-based or from first generation feedstocks.

We consider a relative strength that the framework lists external factors outside TUI's control, which may affect its ability to reach the SPT. These factors include the sufficient availability of SAF supplies to secure its provision at reasonable cost. Other risks include rapid changes in environmental legislation and supply chain disruptions.

Baseline

2019	2026	2030
80.9 g CO2e/rpk	72 g CO2e/rpk	61.5 g CO2e/rpk
	-11%	-24%

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

Instruments under the framework will be subject to various potential changes in the financial characteristics triggered by a failure to achieve the stated SPTs. Such variations and the ultimate characteristics will be specified in the relevant transaction documentation of the instruments to be issued under the framework. These variations could include, for example, coupon step-up(s), coupon step-down(s) and/or higher or lower redemption amounts payable.

The financial instrument could be affected if the issuer has not achieved the SPT by the target observation date, or if it has not reported performance against the targets in a satisfactory manner, or if it has not provided verification of SPT(s) at the target observation date.

The issuer also commits to disclose annual targets in the terms and conditions of the loans, based on the expected SPT trajectories linked to any loan instrument issued under the framework, in line with the requirements of the Sustainability-Linked Loan Principles.

Finally, we note that the issuer could potentially issue instruments where only SPT1.1 would be applicable. This implies a materially lower annualized rate of emissions compared to SPT1.2 (a 1.8% reduction compared to 3.0%), and therefore a lower level of ambition.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

✓ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

Disclosure score	Not aligned	Aligned	**Strong**	Advanced

We consider TUI's overall reporting practices to be strong. TUI commits to disclose the performance of the KPI against the respective SPTs, as well as any relevant information for the assessment of the KPI's performance, including the application of any recalculation procedure, where applicable. The issuer will also disclose annually the measures undertaken to achieve the SPT. It will publish the information in an annual report or in another document published on its website. The exact publication details will be specified in the relevant sustainability-linked finance instruments. The framework also commits to report on the KPI's annual performance at the latest within 125 days following financial year-end, which we view positively.

Further, the issuer will report on any changes that could lead to potential reassessments of the KPI and/or restatements of the SPTs. TUI will also provide an external verification assurance on the performance of the KPI, SPT(s), and the baseline.

When feasible, TUI will disclose information on the sustainability impact stemming from its KPI improvement; that is, the reduction of emissions and how it contributes to decarbonization objectives. The issuer could report exceptional events such as M&A activity and how they could impact the KPI calculation. The issuer could also report on its sustainability strategy and governance changes, when relevant. While we view as good practice the reporting of this information, we do not see the framework as having a strong commitment to such reporting.

Regarding sustainability-linked loans specifically, we note positively the issuer's confirmation that it will provide an annual sustainability confirmation statement. This will outline, for lenders, in addition to the performance against the SPT, the related impact and the timing of this impact on the loan’s economic characteristics.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity, and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not in itself a post-issuance review.

✔ TUI's sustainability-linked finance framework is aligned with this component of the SLBP and SLLP.

The issuer commits to obtain each year an independent post-issuance verification of the KPI performance from a qualified external verifier. This verification will be published on TUI's website annually, up until the reporting date relevant for assessing the achievement of the SPT(s) used by sustainability-linked finance instruments.

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

TUI's sustainability-linked finance framework intends to contribute to the following SDGs:

KPI	SDGs
Airline CO2e-Emissions Intensity (in g CO2e/rpk)	 **13. Climate action***

*The KPI is likely to contribute to the SDGs.