

ECONOMIC & SECTOR SETTING

Tourism Industry
Risks and Opportunities



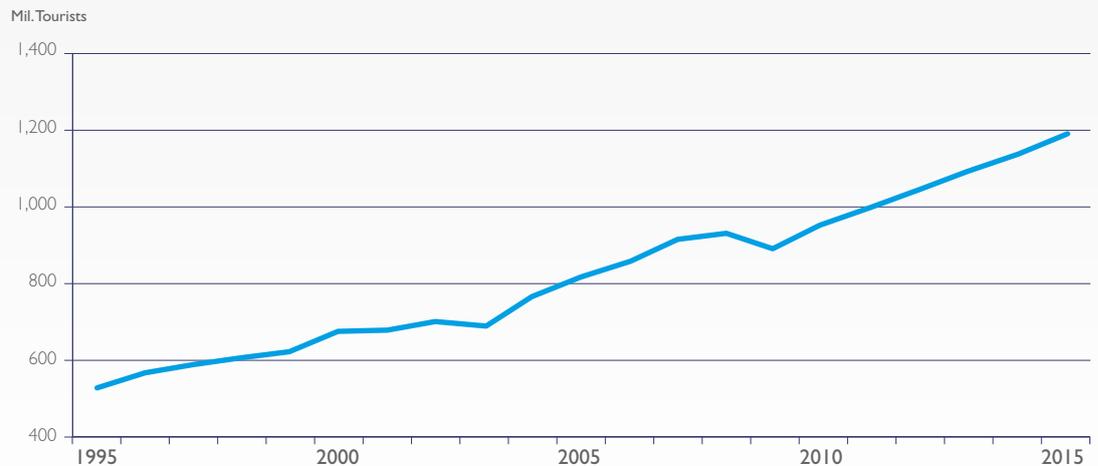
TOURISM INDUSTRY

The tourism industry has, from a historical perspective, played a fundamental role in the development of global economies. Many economies have experienced an increase in prosperity through tourism, a fact that supports the benefits of an industry which, far from entering a cycle of maturity, is one of the boldest and most innovative.

In response to the development of global tourism over the past two decades the industry has seen dramatic growth with an average annual mean growth rate of 4%, higher than the average global GDP growth rate (2.9%).

EVOLUTION OF GLOBAL TOURISM

International Tourist Arrivals



Source: UNWTO World Tourism Barometer, Volume 14, Issue 1

This growth rate – twice the global rate – makes the tourism industry a very dynamic sector which, in times of global economic crisis, has a better and faster chance of recovery than other sectors.

With regard to 2015, this has been a year of very positive figures for the industry, confirming the consolidation of growth that began in the late 20th century. Potential future growth stands at 3.3% (CAGR 2010-2030), validating the good prospects of this industry.

2015 saw the arrival of 1,184 million international tourists, an increase of 50 million compared to 2014 and over 250 million more compared to the years before the crisis began in 2008.

The growth rate for 2015 was 4.4% and the sixth consecutive year of growth above the industry average, compared to the rate of growth of the global economy, which was 2.4%.

Among the macroeconomic triggers that favoured and promoted this growth are the following:

- Growth in consumption levels
- Recovery of domestic economies in the main outbound source markets
- Prevailing feeling of optimism
- Opening of new markets
- Fall in oil prices
- Low interest rates and risk premiums at minimum levels
- Decrease in unemployment

For the tourism industry in general and the hotel industry in particular, 2015 has spelled consolidation in the disruptive trendfuelled by constant innovation that companies like Meliá have as their philosophy, giving a boost to a sector that is in a process of permanent reinvention.

The various transformation processes that focus on the professionalisation of the sector and which use operational excellence criteria, make an impact on improvements in performance. This innovative attitude contributes to sustainable growth and quality in the hotel sector and the tourism industry.

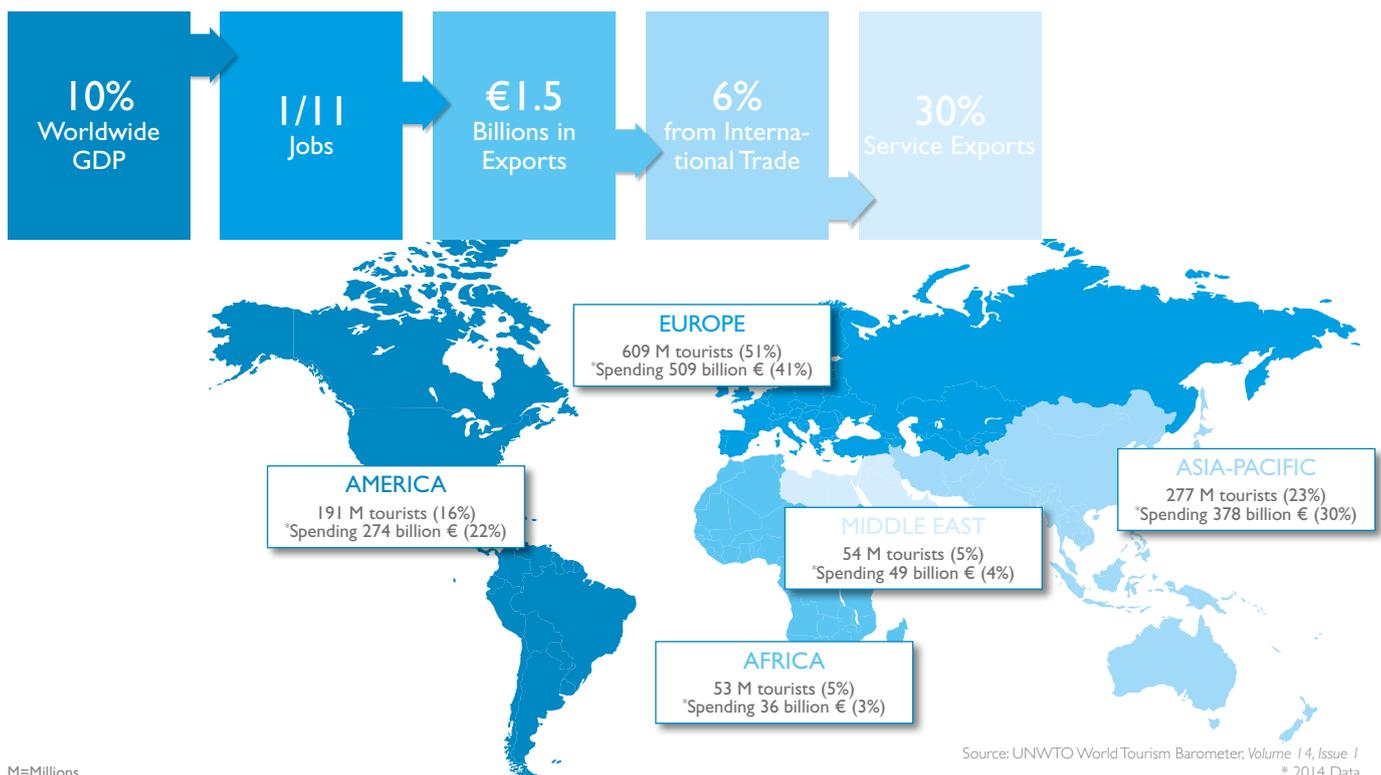
Based on the evolution of the global industry, the United States, United Kingdom and China are the countries that stand out as the major outbound source markets, with growing economies and a strong pound and dollar. China continues to have double-digit growth figures when it comes to spending on tourism, and is the most significant country of outbound tourism in the Asia-Pacific region. In contrast, Brazil and Russia, important sources of outbound tourism over the past years, have seen their economies worsen and their currencies devalued. This has led to them shrinking as outbound source markets, negatively impacting destinations both with regard to stays as well as average tourist spending.

Importantly, developed economies reported growth of 5% in tourism, above the rate of 4% in emerging economies. Political instability and the 2015 terrorist attacks in North Africa impacted negatively on tourism leading to a 3% drop in international tourist arrivals and slowing tourism development in that area. However, other destinations close by – that are more traditional and more secure from a geopolitical standpoint – benefited from the situation.

The estimated growth outlook for 2016 is expected to be somewhere between 3.5% to 4.5% and in both cases is well above expected global economic growth, which will be around 2.9%.

The tourism industry now has to face the challenge of maintaining its growth rates in the coming years.

Below are the main macroeconomic figures for the tourism sector for 2015 showing not only the wealth generated but also how important it is for job creation and exports.



Over recent years, there are three European countries, together with the United States and China, that notably have booked double-digit growth as inbound markets.

Spain remains one of the major players in the tourism sector, ranked third as the most-visited international destination and second for average tourist spending from 2014 to date.



Source: UNWTO World Tourism Barometer, Volume 14, Issue 1
* 2014 Data

Industry Evolution by Region for 2015

	No. OF INTERNATIONAL TOURIST ARRIVALS
<p>AMERICA</p> <p>The Caribbean and Central America had the highest growth in the region thanks to the strength of the US economy and its currency, resulting in international trips over more expensive domestic travel. The most significant of these are Cuba and the Dominican Republic with 18% and 9% tourism growth rates respectively and are the countries with the highest growth rates in the Caribbean.</p>	<p>America Growth</p> <p>2005-2014: 3.5% 2015: 4.9% Expected rate for 2016: Between 4% and 5%</p>
<p>ASIA</p> <p>Oceania took the lead in the region with a growth rate of 7%, with Australia and New Zealand being the main destinations. In Southeast Asia, Thailand and Myanmar stood out with growth rates of 23% and 13% respectively. Indonesia on the other hand had a growth rate of 3% as it tried to recover from the negative impact of the forest fires that affected the country.</p>	<p>Asia Growth</p> <p>2005-2014: 4.4% 2015: 1.6% Expected rate for 2016: Between 2.5% and 5%</p>
<p>EMEA</p> <p>The region shows great disparity in growth; from Europe growing at 5%, the Middle East at 3.1% and Africa at -3.3%. Europe has been an attractive destination and has benefited from a weak Euro against the dollar and pound, with northern and eastern Europe experiencing the highest growth rates. The growth trend for the Middle East continues in line with previous years.</p>	<p>EMEA Growth</p> <p>2005-2014: 3.5% 2015: 4.9% Expected rate for 2016: Between 4% and 5%</p>
<p>SPAIN</p> <p>In the third-ranking country in the world for international tourist arrivals, tourism has proven to be a key driver in the recovery of the economy and job creation, with an upturn in domestic demand that has made up for the fall in Russian tourism, a recovery in business trips, while also benefiting from the events taking place in North Africa and Turkey.</p>	<p>Spain Growth</p> <p>2005-2014: 2% 2015: 4% Expected rate for 2016: Between 3.5% and 5%</p>

Source: UNWTO World Tourism Barometer, Volume 14, Issue 1

RISKS AND OPPORTUNITIES

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The tourism industry is highly global in scope, and has an important relationship with the real and financial economy, the geopolitical landscape and environmental sustainability. Given the importance of the tourism industry and the energy of the environment in which it operates, Meliá assesses and monitors risks and opportunities on a global level.

In addition, Meliá is fully aware of these risks and opportunities – as well as their impact in the short and medium term – on the design of strategies that will ensure business sustainability over time.

Meliá classifies every kind of risk and groups them, depending on their nature, into four categories: environment, business, economy and technology.

At the same time, and during this analysis, Meliá applies a multidimensional creative approach. As a result of this exercise, Meliá conceptualises the impact of each risk beyond the problems they could entail and approach them from a different perspective that allows the Company to identify the opportunities inherent in each risk.

Meliá highlights the following concepts as those that may shape the future of the global landscape in the coming months. The way the industry responds as a whole will largely determine how it will evolve in the future, bearing in mind that in an increasingly dynamic and changing environment industries that are slower and have a low adaptive capacity will be the ones to suffer. Fortunately, the tourism industry has an excellent track record in this regard, but it must maintain a high adaptive capacity and anticipate future realities.

