

TUI Travel PLC
("TUI Travel")

Interim Results for the six months ended 31 March 2014

STRONG H1 PERFORMANCE

- Continued momentum in unique holidays, booked increasingly online
- Flexible, resilient business model ensures that we continue to deliver profitable growth
- Pleased with Summer 2014 trading overall
- Remain confident of delivering full year underlying operating profit growth of between 7% to 10% on a constant currency basis^{1,2}

Peter Long, Chief Executive of TUI Travel PLC, commented:

"We have delivered a strong performance in the first half, driven by our flexible and resilient business model. Demand continues to grow for our unique holidays and we have seen strong growth in online bookings, a key element of our digital transformation. The UK is delivering excellent performance due to market leadership and uniqueness of offering. We are particularly pleased with the result in Germany, where we are making significant headway in improving operating margin and are on a similar journey to that of the UK. In France the turnaround plan to break even is making good progress. Our global leadership position in Accommodation Wholesaler is also delivering strong growth. Overall, we are pleased with Summer 2014 trading, against strong comparatives, and we remain confident of delivering 7% to 10% growth in underlying operating profit during the year on a constant currency basis^{1,2}."

Key Financials

£m	Underlying results ²			Statutory results	
	H1 14	H1 13 ³	Change%	H1 14	H1 13 ³
Revenue	5,190	5,397	-4%	5,190	5,397
Operating loss	(298)	(289)	-3%	(315)	(347)
Operating loss excluding Easter timing impact at constant currency ¹	(277)	(289)	+4%	n/a	n/a
Loss before tax	(369)	(352)	-5%	(386)	(410)

¹ Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result in the current and prior year

² Underlying operating profit/loss and loss before tax exclude separately disclosed items, acquisition related expenses, impairment of goodwill and interest and taxation of results of the Group's joint ventures and associates

³ Prior period finance charges and tax have been restated to reflect revision to IAS 19 'Employee benefits'

Highlights

- **H1 Results**
 - £12m improvement in underlying H1 operating loss versus prior year (at constant currency rates¹, excluding £23m timing impact of later Easter).
 - Statutory operating loss improved by £32m to £315m (H1 2013: £347m).
 - Interim dividend increase of 8% to 4.05p (H1 2013: 3.75p).
- **One Mainstream strategy continues to deliver**
 - Pleased with UK performance – underlying operating loss in line with prior year excluding the timing impact of Easter, despite strong comparatives and lower demand for Egypt.
 - Excellent performance in Germany with a £16m reduction in underlying operating loss¹, excluding the timing impact of Easter.
 - £11m reduction in French tour operator underlying operating loss¹ as a result of restructuring and tight capacity management.

- Significant growth in online bookings, accounting for 38% of sales in H1 2014 (H1 2013: 34%).
- Unique holidays continue to grow, accounting for 70% of sales in H1 2014 (H1 2013: 67%).
- Rigorous business efficiency and destination mix management offsetting impact of Egypt.
- **Strong Accommodation Wholesaler growth**
 - Continuing to leverage our scale and global market leading position, with significant growth in H1 underlying operating profit.
- **Pleased with Summer 2014 trading overall, growth roadmap on track**
 - 60% sold to date, with higher average selling prices across Mainstream offsetting a slight decrease in overall volumes against strong comparatives.
 - Accommodation Wholesaler performing very well, with TTV up 24%.
- **Growth roadmap**
 - Remain confident of delivering full year underlying operating profit growth of between 7% to 10% on a constant currency basis¹.

Investor and Analyst briefing and webcast

A presentation for analysts and investors will be held today at 9.30am (GMT) at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. There will be a live audio webcast of the presentation. Please visit www.tuitravelplc.com for more details.

Interim Management Statement & Q3 Results

TUI Travel will issue its interim management statement and third quarter results on Friday 8 August 2014.

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OUR GROWTH LEVERS : CREATING SHAREHOLDER VALUE

Our clearly defined strategic growth levers help drive improved profitability and free cash flow and, therefore, superior returns on investment. This improvement will allow us to invest further in the future of our business which will benefit our customers, colleagues and shareholders.

1. Delivering Mainstream Growth

1.1 Unique holidays only available from TUI Travel

Unique holidays

Our unique holidays, which are exclusive to us and command a margin premium over commodity products, continue to see strong growth. Sales of higher margin unique holidays during the first half increased by three percentage points to 70% of Mainstream holidays, driven by growth in demand in all key source markets. This growth is set to continue with further expansion of our best performing unique brands, such as Sensori, which has recently opened a new resort in Jamaica and will be opening a further two resorts in Ibiza and Turkey for Summer 2015. Our customers continue to be delighted with the holiday experiences we have designed for them.

One mobility platform

Our unique holiday offering gives us control over the end-to-end customer experience and an opportunity to interact with our customers throughout their journey. We have a clear digital strategy to enhance and deepen the relationship with our customers.

Our digital assistant app is a key driver in maintaining the ongoing customer relationship and will be used to link our people more effectively with our customers any time, anywhere, any way, with continuous additions to functionality. To date, we have rolled out the app to five source markets, just twelve months after the initial UK launch. The apps have received over 490,000 downloads to date with good levels of usage and engagement. We have a clear roadmap in place to make the transition 'from assistant to concierge' over the next 18 months, with additional features that will lead to an increased number of downloads.

To connect our people with our customers we have digitally enabled our UK in-resort teams with tablets from Summer 2014 to connect effectively our physical presence with the digital world. We will now be rolling this out to other source markets.

Flight experience

A key part of our unique holiday offering is also the flight experience. We continue to reshape the composition of our airline fleet to drive customer satisfaction through a more modern offering, and simplify the fleet to one short-haul and one long-haul aircraft type. We took delivery of another Boeing 787-8 in the first half of the year and expect a further three to be delivered in the second half. These aircraft are commanding excellent customer satisfaction scores. We are also continuing to modernise the short-haul fleet, with the delivery of four Boeing 737-800s in the first half of the year and a further one to come in the second half.

1.2 Distributed directly to the customer - growth from online

Direct distribution

Our direct distribution mix improved by three percentage points in the first half to 68% of Mainstream sales, with improvements in all key source markets. The improvement in direct distribution was driven by the online channel which also increased by four percentage points to 38% of Mainstream sales. Our customers are increasingly seeing the benefits of our digital transformation strategy, which in turn is driving conversion improvements from our new web platforms.

One online platform

As an online-driven business, we have a focus on the online customer experience. We are moving to one core online platform across Mainstream. This has already been implemented in the UK and Nordics source markets, and is being rolled out to others in 2014. We continue to see significant benefits in conversion rates as a result of the implementation of the new platform. The optimisation of websites in our core source markets for mobile and tablet use is also driving improved conversion - in the UK, smartphone and tablet bookings improved by 81% in the first half of the year.

Holiday Open Day

As customers increasingly engage with us online, we are enriching our digital content to showcase our unique brands, with a focus on fast, fluid and user-led content. We have launched a new immersive tool, 'Holiday Open Day', to help customers in the UK and Germany visualise and find their perfect holiday. Using the tool, customers are able to create a video of their dream holiday and share their videos with family and friends via social media.

Next generation retail stores

We continue to modernise our retail offering. We launched the first of our UK next generation stores during 2013, with two openings since then in Bristol and Liverpool and a further three planned openings in prime locations by the end of the year. These stores allow us to combine personal advice and service with a rich digital experience that enables customers to build their perfect holiday.

1.3 Leveraging our scale

As Europe's largest tour operator we leverage our scale across all source markets to consolidate our market leading position and grow the number of customers travelling with us. Our One Mainstream structure is in place and yielding tangible benefits across multiple areas, including purchasing, holiday concept development, distribution and online, digital transformation, airline and in-resort services. We recently announced the implementation of a common leadership structure across all group airlines, creating 'one virtual airline'.

2. Organic Specialist & Activity growth

Our specialist businesses are making good progress in delivering organic growth. This includes consolidation of finance and reservation systems to leverage scale across multiple brands, as well as continuing on the journey of standardisation while balancing the varied requirements of the different holiday experiences they offer. We are confident of exceeding our growth roadmap of underlying profit growth of 8-10% at constant currency in the year ahead.

3. Leveraging our global leadership position in Accommodation Wholesaler through growth in existing markets

Accommodation Wholesaler continues to consolidate its global leadership position delivering TTV growth of 21% to £690m during the first half of the year, with a strong performance from Asia and Latin America. Roomnights grew by 21% to 8.3 million during the first half, with hotel inventory also increasing by 19% to 64,000 hotels. Accommodation Wholesaler delivered a significant improvement in operating result in the first half and is on track to meet the roadmap of underlying profit growth of 15-20% at constant currency in the year ahead.

4. Investing in Accommodation OTA

In Accommodation OTA (online travel agent) our focus is to build on our strong brand positioning of LateRooms.com in the UK and expand in the emerging markets across Asia through AsiaRooms.com

and in Brazil with MalaPronta, Brazil's fourth largest accommodation-only OTA. We are continually improving our digital offering for our OTA brands, including fully mobile optimised sites and apps recently updated to improve the search and book experience.

5. Focus on free cash flow generation, ROIC and operational efficiency

One of our key strategic objectives is to continue to improve the Group's profitability and free cash flow and therefore deliver superior returns on investment. This improvement will allow us to invest further in the future of our business which will benefit our customers, colleagues and shareholders.

Net debt reduced from £707m at 31 March 2013 to £586m at 31 March 2014 (excluding restricted cash and asset backed financing). We have increased our interim dividend by 8% to 4.05p, reflecting our improved profitability and cash flow.

Our business improvement programme delivered £8m of efficiency savings in the first half, in line with expectations. This is just one element of our focus on operational efficiency and we continue to drive efficiency improvements across our businesses.

CURRENT TRADING & OUTLOOK

Winter 2013/14

Winter 2013/14 has closed out as expected, with strong pricing across the Mainstream Sector overall, despite the challenging trading environment in the Nordics. Mainstream bookings were down by 2% excluding Egypt with average selling prices up 3%. Including Egypt, bookings were down 6%, with average selling prices up 2%. In Accommodation Wholesaler, TTV continued to grow significantly, up 20%. Trading in Specialist & Activity was in line with expectations. Further commentary on the first half result is included in the Business and Financial Review.

Summer 2014

Overall we are pleased with Summer 2014 trading, with 60% of the programme sold. Overall Mainstream bookings are down slightly against strong comparatives, with average selling prices up 2%. We continue to see strong demand for our unique holidays, which account for 71% of Mainstream bookings, up three percentage points. Mainstream online bookings are up 6%.

<u>Current Trading</u>¹		Summer 2014		
YoY variation%	Total ASP²	Total Sales²	Total Customers²	Programme sold (%)
MAINSTREAM				
UK	+5	+2	-3	60%
Nordics	Flat	-7	-7	61%
Germany	Flat	Flat	Flat	60%
France tour operators	+3	-12	-14	55%
Other ³	+1	Flat	-1	60%
Total Mainstream	+2	Flat	-2	60%
Accommodation Wholesaler⁴	Flat	+24	+23	N/A

¹ These statistics are up to 4 May 2014 and are shown on a constant currency basis

² These statistics relate to all customers whether risk or non risk

³ Other includes Austria, Belgium, Netherlands, Poland and Switzerland

⁴ These statistics refer to online accommodation businesses only; Sales refer to total transaction value (TTV) and customers refers to roomnights

In the UK, bookings are down 3% compared with the prior year, where we saw a very strong start to early trading. We have made selected capacity increases in unique product in destinations such as Greece, Ibiza and Lanzarote, in line with demand. Average selling prices are up by 5%, reflecting the continued increase in unique holiday mix and recovery of input cost increases. Sales of unique holidays account for 85% of holidays sold to date, up by three percentage points. This Summer we have further expanded our highly successful Sensatori offering with the launch of a new resort in Jamaica. Sales of our other unique concepts, such as Couples, Holiday Village and Splashworld, are significantly higher than prior year. Online sales account for 47% of Summer holidays booked, up four percentage points on the prior year. To date, 60% of the programme has been sold.

In the Nordics, reflecting the competitive trading environment, bookings are down 7% with flat average selling prices. We have reduced Summer capacity by 3%, whilst protecting core volumes in the peak months, and we expect this to mitigate the impact of this challenging environment. Unique holidays account for 95% of sales, in line with prior year, and online sales account for 71% of bookings, up three percentage points on prior year. To date, 61% of the programme has been sold.

In Germany, bookings are flat compared with prior year, in line with modest capacity increases. This reflects growth in core package sales, in particular to medium-haul destinations such as Turkey and Greece, as well as a recovery in sales of overland products, offset by a strategic reduction in seat-only sales. Average selling prices for packages are up 1% but remain flat overall as a result of product mix

changes, with an increase in lower priced overland sales. Unique holidays continue to grow, accounting for 55% of bookings, up two percentage points on prior year. This Summer sees the second year of sales of our popular TUI Reisewelten unique holiday brands (Beach, Classic, Lifestyle, Nature, Premium and Scene). Online sales continue to expand in Germany, up 17% compared with prior year. To date 60% of the programme has been sold.

In France, bookings are down by 14%, in line with capacity cuts. Whilst the trading environment remains challenging, we continue to reshape our programme towards more profitable destinations, and we are pleased with the 3% increase in average selling prices. To date 55% of the programme has been sold.

In Accommodation Wholesaler, TTV is up 24%, with strong trading to all destinations, in particular Latin America and Asia, and from all source markets, especially the UK and Asia.

In Specialist & Activity, sales are in line with expectations, with a good performance by the North American specialists, Marine and Adventure businesses.

Fuel/Foreign exchange

Our strategy of hedging the majority of our fuel and currency requirements for future seasons, as detailed below, remains unchanged. This gives us certainty of costs when planning capacity and pricing. The following table shows the percentage of our forecast requirement that is currently hedged for Euros, US Dollars and jet fuel.

	Summer 2014	Winter 2014/15
Euro	90%	60%
US Dollars	92%	73%
Jet Fuel	89%	64%
<i>As at 9 May 2014</i>		

Outlook

Overall, we are pleased with trading for the Summer, despite strong comparatives. We are making clear progress against our growth roadmap, in particular in Germany, where continued margin improvement is evident, and in France, where we have further reduced underlying operating losses. The UK continues to be the clear market leader, with further growth in profitability expected this year. Our Accommodation Wholesaler business continues to deliver strong growth and the Specialist & Activity Sector is on track to deliver against its growth roadmap.

Our strategy, focused on growing unique product and direct distribution, continues to deliver sustainable growth, supported by a flexible and resilient business model. We remain confident of achieving our growth target this year of 7% to 10% underlying operating profit growth on a constant currency basis.

BUSINESS AND FINANCIAL REVIEW

Group Performance

Six months ended 31 March 2014

£m	Underlying results ¹			Statutory results	
	H1 14	H1 13 ²	Change%	H1 14	H1 13 ²
Revenue	5,190	5,397	-4%	5,190	5,397
Operating loss	(298)	(289)	-3%	(315)	(347)
Operating loss excluding Easter timing impact at constant currency ³	(277)	(289)	+4%	n/a	n/a
Loss before tax	(369)	(352)	-5%	(386)	(410)

¹ Underlying operating loss and loss before tax exclude separately disclosed items, acquisition related expenses, impairment of goodwill and interest and taxation of results of the Group's joint ventures and associates

² Prior period finance charges and tax have been restated to reflect revision to IAS 19 'Employee benefits'

³ Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result in the current and prior year

Group revenue decreased by 4% to £5,190m (H1 2013: £5,397m). This result was driven by the later timing of Easter and capacity reductions in France.

The Group's underlying operating loss increased to £298m (H1 2013: loss of £289m). However, this included a £23m impact from the later timing of Easter, which is expected to reverse fully during Q3. On an underlying basis, excluding the timing impact of Easter and foreign exchange translation, underlying operating loss reduced by £12m.

Our business improvement programme is progressing to plan with £8m of cost savings delivered in the period.

The main drivers of the year-on-year improvement in underlying operating loss were:

	£m
H1 13 underlying operating loss	(289)
Trading	4
Business improvement	8
H1 14 underlying operating loss at constant currency, excluding Easter timing	(277)
Easter	(23)
FX translation	2
H1 14 underlying operating loss	(298)

A reconciliation of underlying operating loss to statutory operating loss is as follows:

	H1 14 £m	H1 13 £m
Underlying operating loss	(298)	(289)
Separately disclosed items	23	(8)
Acquisition related expenses	(28)	(31)
Impairment of goodwill	-	(10)
Taxation on profits and interest of joint ventures and associates	(12)	(9)
Statutory operating loss	(315)	(347)

Segmental Performance

Segmental performance is based on underlying financial information (which excludes certain items, including separately disclosed items and acquisition related expenses).

Mainstream Sector

Underlying Mainstream operating loss in H1 was £254m (H1 2013: loss of £250m). At constant currency and excluding the timing impact of Easter, the loss reduced by £12m.

Mainstream	H1 14	H1 13	Change %
Customers ('000)			
UK	1,436	1,472	-2%
Nordics	641	649	-1%
Germany	1,882	2,163	-13%
France	490	600	-18%
Other	1,592	1,664	-4%
Total	6,041	6,548	-8%
Revenue (£m)			
UK	1,085	1,101	-1%
Nordics	560	589	-5%
Germany	1,446	1,525	-5%
France	356	411	-13%
Other	763	784	-3%
Total	4,210	4,410	-5%
Underlying operating (loss) / profit (£m)			
UK	(125)	(113)	-11%
Nordics	14	38	-63%
Germany	(50)	(63)	+21%
France	(45)	(51)	+12%
Other	(48)	(61)	+21%
Total	(254)	(250)	-2%
Mainstream Key Performance Indicators (%)			
Unique mix	70	67	+3pp
Direct distribution mix	68	65	+3pp
Online mix	38	34	+4pp

The main drivers of the year on year change in underlying operating loss are summarised in the following table:

£m	UK	Nordics	Germany	France	Other	Mainstream
H1 13	(113)	38	(63)	(51)	(61)	(250)
Trading	(3)	(21)	16	3	11	6
Business improvement	2	-	-	4	-	6
H1 14 at constant currency, excluding Easter	(114)	17	(47)	(44)	(50)	(238)
Easter	(11)	(3)	(4)	-	-	(18)
FX translation	-	-	1	(1)	2	2
H1 14	(125)	14	(50)	(45)	(48)	(254)

UK

Key Performance Indicators (%)	H1 14	H1 13	Change %pts
Unique mix	84	81	+3
Direct distribution mix	90	87	+3
Online mix	51	45	+6

The underlying UK operating loss in H1 was £125m (H1 2013: loss of £113m). Excluding the timing impact of Easter, the loss was broadly flat, against strong comparatives and despite the decline in demand for Egypt. A remix of the programme and cost saving measures have been implemented to mitigate this, in particular in the airline, with reduced engineering and handling costs. The continued rationalisation of the retail estate has also driven cost base savings in the first half of the year. In addition, the UK business delivered £2m of efficiency savings towards the business improvement programme in the period.

Demand for our unique holidays continued to grow, accounting for 84% of departures in H1, up three percentage points on the prior year. Online bookings accounted for 51% of departures during the first half, up six percentage points year on year. We have seen a continued trend towards booking holidays via tablet and smartphone – bookings via these devices increased by 81% in the first half compared with prior year.

Nordics

Key Performance Indicators (%)	H1 14	H1 13	Change %pts
Unique mix	92	90	+2
Direct distribution mix	88	87	+1
Online mix	67	64	+3

Nordics' underlying operating profit in H1 was £14m (H1 2013: profit of £38m). Excluding the timing impact of Easter, profit reduced by £21m, reflecting the challenging trading environment. We have experienced weaker pricing in H1 due to a significant reduction in the Egypt programme, political unrest in Thailand and a more competitive environment overall, particularly in the Canaries which is a key destination for Winter profitability.

Unique holidays accounted for 92% of departures in the first half, up two percentage points on prior year. Online distribution continues to grow, to 67% of departures in H1, up three percentage points over the prior year.

Germany

Key Performance Indicators (%)	H1 14	H1 13	Change %pts
Unique mix ¹	45	42	+3
Direct distribution mix	38	36	+2
Online mix	10	7	+3

¹ Unique mix now includes 1-2-Fly

In Germany the H1 underlying operating loss was £50m (H1 2013: loss of £63m). Excluding the timing impact of Easter and impact of currency translation, losses reduced by £16m, reflecting significant progress in our journey to improve operating margin in this source market.

Since mid-2012, our new Managing Director in Germany has driven significant cultural change across the business. Excellent progress has been made in the simplification of back office functions, with headcount reduced by 15% since the start of our business improvement programme, and material savings in accommodation and airline costs have been delivered in the first half as a result of contract renegotiations. Overall, we expect to deliver an operating margin of at least 3% in Germany this year.

Last year we launched our popular TUI Reisewelten labels which, along with continued focus on our highly differentiated holiday concepts, has increased the mix of unique holidays to 45%, up three percentage points.

We have continued to focus on increasing direct distribution, with the implementation of consistent TUI branding across all of our own shops. Germany sold 38% of holidays in H1 directly to the customer, an

increase of two percentage points on prior year. This was also partly driven by an increase in online sales, up 15% in H1. Our digital presence has been strengthened through the updated TUI.com website and launch of the Meine TUI digital assistant.

France

Key Performance Indicators (%)	H1 14	H1 13	Change %pts
Unique mix	79	73	+6
Direct distribution mix	56	56	Flat
Online mix	19	19	Flat

In France underlying operating loss in H1 was £45m (H1 2013: loss of £51m). Excluding the impact of currency translation, losses reduced by £7m, reflecting the continued delivery of efficiency savings and alignment of tour operator capacity in line with demand.

The tour operator trading environment continues to be challenging, in particular for North African destinations such as Tunisia, Egypt and Morocco. We have therefore continued to remodel our programme, developing alternative destinations such as Greece, Sardinia, Lanzarote and Cape Verde for forthcoming seasons, and further reducing our commitments in North Africa. We are continuing to rationalise our distribution network, with the closure of unprofitable shops and a focus on growing direct distribution through online sales. The tour operator delivered £3m of efficiency savings towards the business improvement programme in the first half. The result includes £1m adverse impact from foreign exchange translation.

The Airline result is down year-on-year, in line with our expectations. We are now operating a more modern fleet, which delivers improvements in customer service (and hence profitability) across the year as a whole, but is more expensive in the Winter months. This was partly offset by the delivery of the final £1m of business improvement efficiencies.

France	H1 14	H1 13	Change %
Underlying operating loss (£m)			
Tour Operator	(32)	(42)	+24%
Airline	(13)	(9)	-44%
	<u>(45)</u>	<u>(51)</u>	<u>+12%</u>

Other

Other source markets delivered a reduced underlying operating loss of £48m (H1 2013: loss of £61m). This includes £2m benefit from foreign exchange translation. The reduction in loss was driven by a strong performance in the Netherlands and Canada.

Emerging Markets Sector

In the Emerging Markets Sector, our tour operator businesses in Russia and Ukraine continued to be impacted by the decline in demand for Egypt and by local political instability, leading to an operating loss of £14m (H1 2013: loss of £7m). The trading environment continues to be challenging due to geopolitical issues.

Accommodation & Destinations (A&D) Sector

The A&D underlying operating profit in H1 was £3m (H1 2013: loss of £1m). Excluding the timing impact of Easter and impact of currency translation, profit improved by £7m. This was driven by a significant improvement in the Accommodation Wholesaler result.

TTV for the Sector increased by 10% to £1,271m (H1 2013: £1,160m). This was primarily driven by growth in the Accommodation Wholesaler business.

Accommodation & Destinations Sector	H1 14	H1 13	Change %
Revenue (£m)	338	282	+20%
Underlying operating profit / (loss) (£m)			
Online Accommodation	7	1	+600%
Inbound Services	(4)	(2)	n/a
Total	3	(1)	n/a

The main drivers of the year on year improvement in underlying operating result are summarised in the table below:

£m	Online Accommodation	Inbound Services	Accommodation & Destinations
H1 13	1	(2)	(1)
Trading	9	(2)	7
Easter	(2)	-	(2)
FX translation	(1)	-	(1)
H1 14	7	(4)	3

Online Accommodation

The Online Accommodation business delivered underlying operating profit of £7m (H1 2013: profit of £1m), reflecting a strong performance by Accommodation Wholesaler. TTV for Accommodation Wholesaler grew by 21% to £690m and roomnights increased by 21% to 8.3 million. The key area of focus remains on international expansion, particularly in the Americas and Asia, and we are also developing a greater presence in Africa. As a result we are confident this year that we will again achieve our target to grow underlying operating profit by 15% to 20% per annum, on a constant currency basis.

In Accommodation OTA we remain focused on building on our strong brand positioning of LateRooms.com in the UK, and expanding in the emerging markets through AsiaRooms.com across Asia and in Brazil with MalaPronta, Brazil's fourth largest accommodation only OTA. We are continually improving our digital offering for our OTA brands, including fully mobile optimised sites and apps recently updated to improve the search and book experience.

Inbound Services

The Inbound Services business delivered an underlying operating loss of £4m (H1 2013: loss of £2m), reflecting the impact of fewer customers travelling to Egypt. Incoming passenger volumes decreased by 8% as a result of this.

Specialist & Activity Sector

Specialist & Activity underlying operating loss in H1 was £12m (H1 2013: loss of £12m). Excluding the timing impact of Easter, losses reduced by £3m. North American Specialist reported a strong performance, particularly in our polar cruising and private jet tours businesses, although some of the upside seen at Q1 has reversed in Q2 due to the timing of trips. In addition, the Sector delivered £2m of efficiency savings towards the business improvement programme in the period. This was partly offset by lost ski volumes due to the late timing of Easter.

Sales for Summer 2014 are in line with expectations and this, together with the continued delivery of efficiency savings, gives us confidence that we will this year exceed our growth roadmap of 8% to 10% annualised growth in underlying operating profit, on a constant currency basis.

Specialist & Activity	H1 14	H1 13	Change %
Customers ('000)	591	668	-12%
Revenue (£m)	640	705	-9%
Underlying operating loss (£m)	(12)	(12)	Flat

Acquisitions & Investments

Total cash outflow in respect of acquisitions was £17m during the period, net of cash acquired. The Group acquired two businesses, including a further 41% of Le Passage to India ('LPTI') that the Group did not already own. The Group previously owned 50% of LPTI and accounted for this as a joint venture. The Group also acquired five travel agents in Germany. Further information is included in Note 11.

Taxation

The underlying effective tax rate on H1 2014 underlying loss before tax is 29% (H1 2013: 27%). This underlying effective tax rate is based on the current structure of the business and existing local taxation rates and legislation. The increase in the underlying effective tax rate is due to the effect of the geographical mix of profits where these arise in countries with statutory tax rates higher than 27% and higher than the UK statutory rate of 22%.

The effective tax rate for the six months ended 31 March 2013 was 34%. This differs to the underlying tax rate due to the tax effect of acquisition related expenses and separately disclosed items.

The cash tax rate is expected to be lower than the underlying income tax rate as we utilise our deferred tax assets generated from restructuring expenditure and trading losses. In the coming year, we envisage an underlying cash tax rate of approximately 20% of underlying profit before tax.

Dividends

The Board has approved an interim dividend of 4.05p per ordinary share (H1 2013: 3.75p), an increase of 8%, payable to holders of relevant shares on the register at 5 September 2014. This will be paid on 3 October 2014.

We intend to continue to operate a dividend reinvestment plan as an alternative to the cash dividend.

Separately disclosed items

Separately disclosed items net to £23m income in the period (H1 2013: £8m expense). This included a restructuring charge of £18m, primarily relating to previously announced restructuring in France, Germany and Specialist & Activity. We also recorded pension scheme related credits of £39m in relation to two pension transactions completing in the UK and Norway. Further information is included in Note 5.

Cash and liquidity

Net debt excluding restricted cash (cash and cash equivalents less loans, overdrafts and finance leases) at 31 March 2014 was £977m (31 March 2013: £1,076m). This excludes restricted cash of £131m (31 March 2013: £27m). The increase in restricted cash is primarily due to receipt of £98m from the Belgian government in the second half of 2013, in relation to disputed VAT in a long-running court case. The outcome of the case remains uncertain. Further information is included in Note 13.

The net debt position consisted of £1,244m of cash and cash equivalents, which includes restricted cash of £131m, £942m of current interest bearing loans and liabilities and £1,148m of non current interest bearing loans and liabilities.

We remain confident in our funding and liquidity position. We recently signed a new £1.4bn new bank credit facility, including letters of credit, maturing June 2018. This will be used to manage the seasonality

of the Group's cash flows and liquidity. The new facility underpins TUI Travel's debt maturity profile and provides valuable flexibility in respect of other debt facilities and upcoming maturities. As a result of this, we have reduced our £300m medium-term syndicated bank credit facility by £150m as the Directors no longer considered this portion to be required following the refinancing of the main revolving credit facility. Our covenants remain unchanged.

In addition to the revolving credit facility we have three other main sources of finance - a £350m convertible bond (due October 2014), a £400m convertible bond (due April 2017) and £323m of drawn finance lease obligations.

Consolidated income statement
for the 6-month period ended 31 March 2014

		6-month period ended 31 March 2014	6-month period ended 31 March 2013 (restated)	Year ended 30 September 2013 (restated)
	Note	£m	£m	£m
Revenue	4	5,190	5,397	15,051
Cost of sales		(4,930)	(5,173)	(13,395)
Gross profit		260	224	1,656
Administrative expenses		(576)	(581)	(1,376)
Share of profits of joint ventures and associates		1	10	17
Operating (loss) / profit	4	(315)	(347)	297
Analysed as:				
Underlying operating (loss) / profit	4	(298)	(289)	589
Separately disclosed items	5	23	(8)	(24)
Acquisition related expenses	6	(28)	(31)	(65)
Impairment of goodwill	7	–	(10)	(188)
Taxation on profits and interest of joint ventures and associates		(12)	(9)	(15)
		(315)	(347)	297
Financial income	1	8	6	19
Financial expenses	1	(79)	(69)	(147)
Net financial expenses	1	(71)	(63)	(128)
(Loss) / profit before tax		(386)	(410)	169
Taxation	8	109	144	(115)
(Loss) / profit for the period / year		(277)	(266)	54
Attributable to:				
Equity holders of the parent		(273)	(266)	51
Non-controlling interests		(4)	–	3
(Loss) / profit for the period / year		(277)	(266)	54

		6-month period ended 31 March 2014	6-month period ended 31 March 2013 (restated)	Year ended 30 September 2013 (restated)
	Note	Pence	Pence	Pence
Basic and diluted (loss) / earnings per share for (loss) / profit attributable to the equity holders of the Company during the period / year				
Basic (loss) / earnings per share	10	(24.6)	(24.0)	4.6
Diluted (loss) / earnings per share	10	(24.6)	(24.0)	4.6

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

Consolidated statement of comprehensive income
for the 6-month period ended 31 March 2014

	6-month period ended 31 March 2014	6-month period ended 31 March 2013 (restated)	Year ended 30 September 2013 (restated)
	£m	£m	£m
(Loss) / profit for the period / year	(277)	(266)	54
Other comprehensive (loss) / income			
Items that will not be reclassified to profit and loss:			
Remeasurements of defined benefit pension schemes	(6)	(28)	(11)
Tax on remeasurements of defined benefit pension schemes	2	7	(14)
Items that will not be reclassified to profit and loss	(4)	(21)	(25)
Items that may be subsequently reclassified to profit and loss:			
Foreign exchange translation	(54)	132	44
Foreign exchange gains recycled through the consolidated income statement	–	(2)	(1)
Cash flow hedges:			
- movement in fair value	(29)	118	(76)
- amounts recycled through the consolidated income statement	8	(6)	(5)
Tax on cash flow hedges	4	(22)	22
Available for sale financial assets:			
- movement in fair value	1	4	1
Items that may be subsequently reclassified to profit and loss	(70)	224	(15)
Other comprehensive (loss) / income for the period / year net of tax	(74)	203	(40)
Total comprehensive (loss) / income for the period / year	(351)	(63)	14
Total comprehensive (loss) / income for the period / year			
<i>Attributable to:</i>			
Equity holders of the parent	(347)	(63)	15
Non-controlling interests	(4)	–	(1)
Total	(351)	(63)	14

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

Consolidated balance sheet
at 31 March 2014

		31 March 2014	31 March 2013	30 September 2013
	Note	£m	£m	£m
Non-current assets				
Intangible assets	12	4,388	4,619	4,384
Property, plant and equipment	12	1,236	1,269	1,238
Investments in joint ventures and associates		246	273	243
Other investments		37	71	36
Trade and other receivables		212	275	205
Derivative financial instruments	17	4	30	3
Deferred tax assets		289	332	168
		6,412	6,869	6,277
Current assets				
Inventories		60	65	57
Other investments		13	17	36
Trade and other receivables		1,570	1,633	1,331
Income tax recoverable		58	41	24
Derivative financial instruments	17	31	177	41
Cash and cash equivalents	13,16	1,244	502	1,753
Assets classified as held for sale		9	17	10
		2,985	2,452	3,252
Total assets		9,397	9,321	9,529
Current liabilities				
Interest-bearing loans and borrowings	14	(942)	(123)	(594)
Retirement benefits		(3)	(3)	(3)
Derivative financial instruments	17	(149)	(100)	(147)
Trade and other payables	15	(4,828)	(4,777)	(4,773)
Provisions for liabilities		(262)	(308)	(277)
Income tax payable		(47)	(22)	(76)
		(6,231)	(5,333)	(5,870)
Non-current liabilities				
Interest-bearing loans and borrowings	14	(1,148)	(1,428)	(1,012)
Retirement benefits		(564)	(679)	(658)
Derivative financial instruments	17	(17)	(13)	(26)
Trade and other payables		(88)	(66)	(79)
Provisions for liabilities		(354)	(322)	(362)
Deferred tax liabilities		(11)	(67)	(31)
		(2,182)	(2,575)	(2,168)
Total liabilities		(8,413)	(7,908)	(8,038)
Net assets		984	1,413	1,491
Equity				
Called up share capital		112	112	112
Convertible bond reserve		114	88	91
Other reserves		2,554	2,863	2,625
Accumulated losses		(1,832)	(1,694)	(1,378)
Total equity attributable to equity holders of the parent		948	1,369	1,450
Non-controlling interests		36	44	41
Total equity		984	1,413	1,491

Consolidated statement of cash flows
for the 6-month period ended 31 March 2014

	Note	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 (restated) £m	Year ended 30 September 2013 (restated) £m
(Loss) / profit for the period / year		(277)	(266)	54
Adjustment for:				
Depreciation and amortisation		120	118	248
Impairment of intangible assets and property, plant and equipment		–	7	14
Impairment of goodwill		–	10	188
Equity-settled share-based payment expense		10	8	15
Profit on sale of property, plant and equipment		(5)	–	(10)
Share of profit of joint ventures and associates		(1)	(10)	(17)
Loss / (profit) on foreign exchange		3	17	(19)
Change in value of assets held at fair value through profit and loss		–	–	(5)
Gain on disposal of other investment		(1)	–	–
Dividends received from joint ventures and associates		2	28	43
Pension past service gains arising from curtailment	5	(39)	(14)	(25)
Financial income		(8)	(6)	(19)
Financial expenses		79	69	147
Taxation	8	(109)	(144)	115
Operating cash flow before changes in working capital and provisions		(226)	(183)	729
(Increase) / decrease in inventories		(3)	(3)	3
(Increase) / decrease in trade and other receivables		(275)	(317)	63
(Decrease) / increase in trade and other payables		(89)	(15)	59
Belgian VAT receipt		–	–	98
(Decrease) / increase in provisions and retirement benefits		(65)	(20)	11
Cash flows generated from operations		(658)	(538)	963
Interest paid		(45)	(44)	(90)
Interest received		8	6	19
Income taxes paid		(71)	(71)	(110)
Cash flows generated from operating activities		(766)	(647)	782
Investing activities				
Proceeds from sale of property, plant and equipment		86	58	192
Acquisition of subsidiaries net of cash acquired	11	(17)	(9)	(10)
Proceeds from disposal of other investments		31	–	–
Investment in joint ventures, associates and other investments		(22)	(40)	(41)
Acquisition of property, plant and equipment		(100)	(119)	(311)
Acquisition of intangible assets		(53)	(38)	(102)
Cash flows used in investing activities		(75)	(148)	(272)
Financing activities				
Proceeds from new loans and deposits taken		437	482	82
Repayment of borrowings		(32)	(25)	(44)
Repayment of finance lease liabilities		(12)	(12)	(26)
Dividends paid to ordinary and non-controlling interests		(43)	(38)	(132)
Cash flows generated from / (used in) financing activities		350	407	(120)
Net (decrease) / increase in cash and cash equivalents	16	(491)	(388)	390
Cash and cash equivalents at start of period / year		1,753	830	830
Increase in bank balances presented gross	16	18	–	491
Effect of foreign exchange on cash held		(36)	60	42
Cash and cash equivalents at end of period / year	13	1,244	502	1,753

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

Movements in cash and net debt are presented in Note 16.

Consolidated statement of changes in equity for the 6-month period ended 31 March 2014

	Called up share capital £m	Convertible bond reserve £m	Merger reserve £m	Other reserves £m	Accumulated losses £m	Equity holders of parent £m	Non- controlling interests £m	Total £m
At 1 October 2013	112	91	2,523	102	(1,378)	1,450	41	1,491
Loss for the period	–	–	–	–	(273)	(273)	(4)	(277)
Other comprehensive loss for the period	–	–	–	(71)	(3)	(74)	–	(74)
Total comprehensive loss for the period	–	–	–	(71)	(276)	(347)	(4)	(351)
Transactions with owners								
Share-based payment - charge for the period	–	–	–	–	8	8	–	8
Repurchase of own shares	–	–	–	–	(32)	(32)	–	(32)
Acquisition of non-controlling interests	–	–	–	–	(4)	(4)	–	(4)
Dividends	–	–	–	–	(150)	(150)	(1)	(151)
Adjustments in respect of prior periods - deferred tax	–	23	–	–	–	23	–	23
Total transactions with owners	–	23	–	–	(178)	(155)	(1)	(156)
At 31 March 2014	112	114	2,523	31	(1,832)	948	36	984

Consolidated statement of changes in equity for the 6-month period ended 31 March 2013

	Called up share capital £m	Convertible bond reserve £m	Merger reserve £m	Other reserves £m	Accumulated losses £m	Equity holders of parent £m	Non- controlling interests £m	Total £m
At 1 October 2012	112	88	2,523	104	(1,262)	1,565	44	1,609
Loss for the period (restated)	–	–	–	–	(266)	(266)	–	(266)
Other comprehensive income / (loss) for the period (restated)	–	–	–	236	(33)	203	–	203
Total comprehensive income / (loss) for the period	–	–	–	236	(299)	(63)	–	(63)
Transactions with owners								
Share-based payment - charge for the period	–	–	–	–	5	5	–	5
Repurchase of own shares	–	–	–	–	(8)	(8)	–	(8)
Acquisition of non-controlling interests	–	–	–	–	–	–	1	1
Dividends	–	–	–	–	(130)	(130)	(1)	(131)
Total transactions with owners	–	–	–	–	(133)	(133)	–	(133)
At 31 March 2013	112	88	2,523	340	(1,694)	1,369	44	1,413

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

1. Basis of preparation

Statement of compliance

This condensed consolidated interim financial information for the 6-month period ended 31 March 2014 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the Company's published consolidated financial statements for the year ended 30 September 2013, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial information is not audited and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The summary results for the year ended 30 September 2013 is an extract from the published Annual Report & Accounts, with the exception of the restatement for the adoption of IAS19 'Employee benefits' (revised) as described below, which were approved by the Board of Directors on 9 December 2013 and delivered to the Registrar of Companies. The report of the auditors on those Annual Report & Accounts was unqualified, did not include a reference to any matters to which they drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 of the Companies Act 2006.

This condensed consolidated interim financial information was approved by the Board of Directors on 12 May 2014.

Accounting policies

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, this condensed consolidated interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 30 September 2013, except as noted below in respect of new and amended standards adopted by the Group.

The following accounting standards and interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) are considered applicable and have been adopted by the Group with effect from 1 October 2013:

- IAS 19 (revised) 'Employee benefits'
- IFRS 13 'Fair value measurement', including the disclosures required by IAS 34 para 16A(j)
- Annual improvements project (2011)
- Amendments to IFRS 7 'Financial instruments: Disclosures' on offsetting.

The Group has also early adopted the following amendments to current IFRSs:

- Amendment to IAS 36 'Impairment of assets' in respect of fair value disclosures
- Amendment to IAS 39 'Financial instruments: Recognition and measurement' in respect of novation of derivatives and continuation of hedge accounting.

The revision to IAS 19 'Employee benefits' makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and enhances the disclosures for all employee benefits. The most significant impact for the Group is that interest expense is now calculated on the net defined benefit liability by applying the discount rate to the net defined benefit liability. This replaces the interest cost on the defined benefit obligation and the expected return on plan assets.

The revised standard has retrospective application and consequently the relevant charges or income in the consolidated income statement and the consolidated statement of comprehensive income for the financial year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been

Notes to the condensed consolidated interim financial information

restated. The impact on opening retained earnings or net assets has not been dealt with as a prior year adjustment on the grounds of materiality.

The impact before tax on the results for the 6-month period to 31 March 2013 and year ending 30 September 2013 was as follows:

	6-month period ended 31 March 2013 as previously reported £m	Impact of IAS 19 (revised) £m	6-month period ended 31 March 2013 as restated £m	Year ended 30 September 2013 as previously reported £m	Impact of IAS 19 (revised) £m	Year ended 30 September 2013 as restated £m
Financial income	39	(33)	6	86	(67)	19
Financial expenses	(96)	27	(69)	(202)	55	(147)
Net financial expenses	(57)	(6)	(63)	(116)	(12)	(128)
(Loss)/profit before tax	(404)	(6)	(410)	181	(12)	169
Taxation (credit)/charge	143	1	144	(118)	3	(115)
(Loss)/profit for the period / year	(261)	(5)	(266)	63	(9)	54
Other comprehensive income/ (loss)	198	5	203	(49)	9	(40)
	Pence	Pence	Pence	Pence	Pence	Pence
Basic (loss)/earnings per share	(23.6)	(0.4)	(24.0)	5.4	(0.8)	4.6
Diluted (loss)/earnings per share	(23.6)	(0.4)	(24.0)	5.4	(0.8)	4.6
Underlying (loss)/earnings per share	(22.8)	(0.4)	(23.2)	30.8	(0.7)	30.1
Diluted underlying (loss)/earnings per share	(22.8)	(0.4)	(23.2)	29.6	(0.7)	28.9

The Group has adopted IFRS 13 'Fair value measurement' which has affected disclosures only. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

The remaining adoptions have not had a material impact on the current or prior period's / year's results or net assets and therefore no restatement of the prior period's / year's equity or (loss) / profit has been presented for these new standards and amendments.

Estimates and judgements

The preparation of interim financial information requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The critical accounting estimates and judgements made by the Directors in applying the Group's accounting policies are consistent with those detailed on pages 122 to 123 of the Group's 2013 Annual Report & Accounts.

Underlying measures of profit / (loss)

The Group believes that underlying operating profit / (loss), underlying profit / (loss) before tax and underlying earnings / (loss) per share provide additional guidance to statutory measures to help understand the underlying performance of the business during the financial period / year. The term underlying is not defined by International Financial Reporting Standards. It is a measure that is used by management to assess the underlying performance of the business internally and is not intended to be a substitute measure for International Financial Reporting Standards. The Group defines these underlying measures as follows:

Notes to the condensed consolidated interim financial information

Underlying operating profit / (loss) is operating profit or loss from continuing operations stated before separately disclosed items (Note 5), acquisition related expenses, impairment of goodwill and interest and taxation on the Group's share of the results of joint ventures and associates.

Underlying profit / (loss) before tax is profit or loss from continuing operations before taxation, acquisition related expenses, impairment of goodwill, interest and taxation of joint ventures and associates and separately disclosed items included within the operating result.

Underlying earnings / (loss) used in the calculation of underlying earnings / (loss) per share is profit / (loss) after tax from continuing operations excluding acquisition related expenses, impairment of goodwill and separately disclosed items included within the operating result. For the purpose of this calculation, an underlying tax charge of 30% (2013: 27%) is used which excludes the tax effects of separately disclosed items, acquisition related expenses, goodwill impairment charges and separately disclosed tax items.

It should be noted that the definitions of underlying items being used in this condensed consolidated interim financial information are those used by the Group and may not be comparable with the term "underlying" as defined by other companies within both the same sector or elsewhere.

Separately disclosed items

Separately disclosed items are those significant items which in management's judgement are highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Such items are included within the income statement caption to which they relate.

Acquisition related expenses

Acquisition related expenses comprise amortisation of business combination intangibles, other acquisition related expenses and remuneration for post-combination services.

Funding, liquidity and going concern

The Board have considered and remains satisfied with the Group's funding and liquidity position. At 31 March 2014, the main sources of debt funding included:

- a total of £1,120m bank revolving credit facilities maturing in June 2015;
- £185m of bonding and letter of credit facility maturing in June 2015;
- £350m convertible bond due October 2014;
- £400m convertible bond due April 2017;
- £300m bank syndicated facility which matures in April 2016 and which is only available in the event of a requirement to redeem the Group's convertible bonds; and
- £323m of drawn finance lease obligations with repayments up to March 2023;

On 28 March 2014 the Group completed the renegotiations and signed a new revolving credit facility with the conditions precedent being met on 2 April 2014. The new facility comprise the following sources of finance:

- Syndicated bank revolving credit facility of £1,225m, maturing in June 2018; and
- £175m of bonding and letter of credit facility which matures in June 2018.

The covenants in the new revolving credit facility are unchanged from the covenants included in the £1,120m bank revolving credit facilities.

Notes to the condensed consolidated interim financial information

At 31 March 2014 the drawn amount under the old revolving credit facilities totalled £430m. This was repaid on 2 April 2014 using £50m of cash and £380m drawn under the new facility. On the same date the old facilities were cancelled and replaced by the new facility.

On 22 April 2014 the Group reduced the £300m bank syndicated facility by £150m as the Directors no longer considered this portion to be required following the refinancing of the revolving credit facilities.

The ratio of earnings before interest, taxation, depreciation, amortisation and operating lease rentals (EBITDAR) to fixed charges (being the aggregate amount of interest and any other finance charges in respect of borrowings and including all payments under operating leases) and the ratio of net debt to earnings before interest, taxation, depreciation and amortisation (EBITDA), which the Board believes to be the most useful measures of cash generation and gearing, as well as being the main basis for the Group's credit facility covenants, are well within the covenant limits at the date of the balance sheet. Forecasts reviewed by the Board, including forecasts adjusted for significantly worse economic conditions, show continued compliance with these covenants. For both covenants, earnings are calculated on an underlying basis as described above.

On the basis of its forecasts, both base case and adjusted as described above, and available facilities, the Board has concluded that the going concern basis of preparation continues to be appropriate.

2. Seasonality

The Group's travel leisure business is subject to significant seasonal fluctuations between the Winter and Summer seasons, resulting in losses being expected in the first half and profits being expected in the second half of the year. The Group mitigates this seasonal impact through operating a broad range of holiday products in both the Winter and Summer seasons and in different global holiday markets which have different annual cycles. There are appropriate sources of debt funding, as described in Note 1, to match the seasonality of the Group's cash flows.

3. Principal risks and uncertainties

The Group considers strategic, operational and compliance risks and identifies actions to mitigate those risks. The principal risks and uncertainties faced by the Group for the remainder of the financial year and which are unchanged from the prior year, are listed below:

- Changing consumer preferences and desires, including price sensitivity and digital solutions
- Heavy reliance on legacy systems, processes and structures
- Acquisitions and investment into new and emerging markets
- Global financial factors, such as fluctuations in exchange rates and aircraft fuel prices, complex tax laws and geo-political events
- Consumer demand caused by uncertainty in the economic outlook
- Ability to retain key management and have good relations with our colleagues
- Political volatility, natural catastrophes and outbreaks
- Regulatory environment, particularly in relation to consumer protection, aviation and the environment.

Further details of the Group's risk profile analysis can be found on pages 42 to 51 inclusive of the Group's Annual Report & Accounts for the year ended 30 September 2013, available from the Group website: www.tuitravelplc.com.

4. Segmental information

Information regarding the identification of the chief operating decision-maker and the basis of measurement for the results of the current and prior periods and for the year ended 30 September 2013 is disclosed on page 123 of the Group's 2013 Annual Report & Accounts.

Group structure

The Group presents segmental information in respect of its Sectors. The businesses within our Mainstream Sector are reported via each key source market. Emerging Markets remains outside of the Mainstream Sector for internal monthly management reporting purposes and is reported separately.

The Mainstream Sector consists of the following source markets: UK & Ireland, Germany, France, Corsair, the Nordic Countries, Canada, Belgium & Morocco, the Netherlands, Austria, Switzerland, Poland, Southern Europe and the Hotels division (comprising hotel management companies and joint ventures in hotel assets). Each source market represents an individual operating segment, prior to applying aggregation criteria, for the purposes of segmental information.

The Specialist & Activity Sector operates and reports under six divisions, namely Adventure, Education, Marine, North American Specialist, Sport and Specialist Holidays Group, but is considered to be one operating segment, consistent with internal management reporting.

The Accommodation & Destinations Sector (A&D) provides a range of services in destinations to tour operators, travel agents, corporate clients and direct to the consumer worldwide. A&D consists of Online Accommodation (comprising Accommodation Wholesaler and Accommodation OTA) and Inbound Services. A&D is considered as one operating segment, consistent with internal management reporting.

Reportable and reported segments

The results of the UK & Ireland, Germany, Nordics and the French tour operator are reported separately due to the size and importance of these source markets and they meet the threshold for being individual reportable segments. The results for the French scheduled airline, Corsair, are shown separately to that of the French tour operator as it has a different business model to the rest of the Group's integrated tour operators. All of the other Mainstream Sectors, except for the Hotels division, meet the aggregation criteria set out in IFRS 8 and are reported as one segment, the Rest of Mainstream. All of the aggregated businesses are considered to be similar in nature and economically similar over the long term. The Hotels division is reported separately as this does not meet the aggregation criteria of IFRS 8.

Emerging Markets, the Specialist & Activity and A&D Sectors are all reported as separate Sector totals as this is consistent with internal management reporting.

6-month period ended 31 March 2014

Sector	Total revenue £m	Inter-segmental revenue £m	Total external revenue £m	Underlying operating (loss) / profit £m
UK & Ireland	1,159	(74)	1,085	(125)
Germany	1,458	(12)	1,446	(50)
Nordics	563	(3)	560	14
French tour operator	170	–	170	(32)
French airline	194	(8)	186	(13)
Hotels	59	(49)	10	(32)
Rest of Mainstream	778	(25)	753	(16)
Total Mainstream	4,381	(171)	4,210	(254)
Specialist & Activity	641	(1)	640	(12)
A&D	396	(58)	338	3
Emerging Markets	2	–	2	(14)
All other segments and unallocated items	–	–	–	(21)
Total Group	5,420	(230)	5,190	(298)

6-month period ended 31 March 2013

Sector	Total revenue £m	Inter-segmental revenue £m	Total external revenue £m	Underlying operating (loss) / profit £m
UK & Ireland	1,202	(101)	1,101	(113)
Germany	1,545	(20)	1,525	(63)
Nordics	589	–	589	38
French tour operator	242	–	242	(42)
French airline	196	(27)	169	(9)
Hotels	53	(44)	9	(33)
Rest of Mainstream	788	(13)	775	(28)
Total Mainstream	4,615	(205)	4,410	(250)
Specialist & Activity	706	(1)	705	(12)
A&D	341	(59)	282	(1)
Emerging Markets	–	–	–	(7)
All other segments and unallocated items	–	–	–	(19)
Total Group	5,662	(265)	5,397	(289)

Year ended 30 September 2013

Sector	Total revenue £m	Inter-segmental revenue £m	Total external revenue £m	Underlying operating profit / (loss) £m
UK & Ireland	4,007	(128)	3,879	251
Germany	4,187	(26)	4,161	113
Nordics	1,223	–	1,223	79
French tour operator	706	–	706	(59)
French airline	408	(37)	371	(1)
Hotels	214	(160)	54	6
Rest of Mainstream	2,564	(90)	2,474	125
Total Mainstream	13,309	(441)	12,868	514
Specialist & Activity	1,437	(4)	1,433	41
A&D	960	(210)	750	78
Emerging Markets	–	–	–	(12)
All other segments and unallocated items	–	–	–	(32)
Total Group	15,706	(655)	15,051	589

Reconciliation of underlying operating (loss) / profit in segmental analysis to (loss) / profit before tax

	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 (restated) £m	Year ended 30 September 2013 (restated) £m
Underlying operating (loss) / profit	(298)	(289)	589
Separately disclosed items	23	(8)	(24)
Acquisition related expenses	(28)	(31)	(65)
Impairment of goodwill	–	(10)	(188)
Taxation on profits and interest of joint ventures and associates	(12)	(9)	(15)
Operating (loss) / profit	(315)	(347)	297
Net financial expenses	(71)	(63)	(128)
(Loss) / profit before tax	(386)	(410)	169

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

5. Separately disclosed items

	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 £m	Year ended 30 September 2013 £m
Separately disclosed items in operating (loss) / profit			
Restructuring and other separately disclosed items	19	9	59
Aircraft and other assets	(4)	–	(23)
Pension related credit	(39)	(14)	(25)
Litigation provisions	1	13	13
Total (credit) / charge	(23)	8	24

Restructuring and other separately disclosed items

The overall charge of £19m includes £18m of restructuring costs. These primarily relate to £8m in France from the ongoing restructure of both the tour operator and the airline, £5m across other Mainstream businesses, £3m in Marine and £2m in the Accommodation & Destinations Sector. There has then been an additional £1m charge arising mainly from the change in value of unhedged foreign currency derivative instruments relating to future seasons.

During the 6-month period ended 31 March 2013, the overall charge of £9m included £17m of restructuring costs. These restructuring costs primarily related to £9m in the Specialist & Activity Sector due to the removal of the Sector management team and the closure of a business in the Education division, and £5m in France from the ongoing restructure of both the tour operator and the airline. These restructuring costs were offset by an £8m credit on the change in value of unhedged foreign currency derivative instruments relating to future seasons.

Aircraft and other assets

During the 6-month period ended 31 March 2014, there was an overall credit of £4m. £3m of this arose from sale and lease back transactions through taking delivery from Boeing of five aircraft in the period, net of entry into service costs being incurred in the UK and Belgium as additional Boeing 787 Dreamliners are brought into service. There was also a credit of £1m recognised in the period on finalising the disposal of the majority of our interests in The Airline Group Limited; the transaction completing in March 2014.

Pension related credit

The £39m credit recognised in the 6-month period ended 31 March 2014 arose mainly from two pension transactions which completed in the UK and Norway. In the UK, current pensioner members of the three UK defined benefit pension schemes were given the option to exchange non-statutory future increases in their pension for a higher pension now with only limited (statutory) increases to be applied in future years. The level of acceptances reduced the present value of future pension liabilities and the credit is taken to the income statement under IAS 19 (revised) as it represents a change in plan benefits. Net of advisor costs, the credit to the income statement arising from this transaction was £33m.

In Norway, the Management Board agreed with the employees to close the defined benefit pension scheme and move the members into a defined contribution scheme. This change is classified as a past service gain on scheme closure under IAS 19 (revised) and the resultant reduction in accrued pension liabilities of £4m has been recognised in the income statement in the period in which it occurred.

During the comparative 6-month period ended 31 March 2013, the management and works council of TUI Nederland NV agreed to close their defined benefit pension scheme and replace it with a defined contribution scheme. This change was also classified as a past service gain under IAS 19 (revised) and the resultant reduction in accrued pension liabilities of £14m was recognised in the income statement in the period in which it occurred.

6. Acquisition related expenses

	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 £m	Year ended 30 September 2013 £m
Acquisition related expenses in operating (loss) / profit			
Amortisation of business combination intangibles	25	28	57
Other acquisition related expenses	–	1	2
Remuneration for post-combination services	3	2	6
Total	28	31	65

7. Goodwill impairment charge

Details of the goodwill impairment charge for the year ended 30 September 2013 of £188m are provided on pages 141 to 143 of the Group's 2013 Annual Report & Accounts.

During the 6-month period ended 31 March 2013, a goodwill impairment charge of £10m was recognised in respect of two small businesses that were identified as non-core to the Group and which were subsequently closed.

8. Taxation

The Group's effective rate of taxation, being the rate of taxation forecast for the full year (excluding adjustments in respect of prior years), applied to the 6-month period ended 31 March 2014, is 34%.

	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 (restated) £m	Year ended 30 September 2013 (restated) £m
(Loss) / profit before tax reported in the consolidated income statement	(386)	(410)	169
Less share of profit in joint ventures and associates	(1)	(10)	(17)
	(387)	(420)	152
Effective tax rate	34%	34%	76%
Effective tax rate applied to (loss) / profit before tax, excluding share of profit in joint ventures and associates	130	144	(115)
Adjustment in respect of prior periods	(21)	–	–
Total income tax credit / (charge) in the consolidated income statement	109	144	(115)

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

Following a review of the Group's deferred tax balances in the period, the Directors have written off certain deferred tax assets (£21m) where there is no longer sufficient certainty of the timing of any benefits that might arise in the future and written back certain deferred tax liabilities to reserves (principally in respect of the convertible bonds).

Spanish tax case

The Spanish tax case came to a conclusion in the period with the final hearing in the Spanish courts occurring on 31 March 2014. In line with the settlement agreement reached on 11 October 2013, the interest and penalties levied of €20m were paid prior to that final hearing and the matter is now closed.

9. Dividends

The following dividends relating to ordinary shares have been deducted from equity in the period:

	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 £m	Year ended 30 September 2013 £m
Interim dividend paid for 2013	42	–	–
Final dividend proposed for 2013	108	–	–
Interim dividend paid for 2012	–	38	36
Final dividend paid for 2012	–	92	89
Total dividends	150	130	125

The interim dividend in respect of the year ended 30 September 2013 of 3.75p per ordinary share, totalling £42m was paid on 4 October 2013 and deducted from equity in the current period.

At the Company's Annual General Meeting on 6 February 2014, the shareholders approved the final recommended dividend for 2013 of 9.75p per ordinary share. The value of this dividend, £108m, has therefore been recognised as a deduction from equity in the period and as a liability at 31 March 2014. The dividend was paid on 9 April 2014.

Subsequent to the balance sheet date, the Directors have approved an interim dividend for the 6-month period ended 31 March 2014 of 4.05p per ordinary share, totalling £45m, payable on 3 October 2014.

A dividend reinvestment plan is in operation. Those shareholders who have not elected to participate in this plan and who would like to participate with respect to the 2014 interim dividend, may do so by contacting Equiniti on 0871 384 2030. The last day for election for the proposed interim dividend is 12 September 2014 and any requests should be made in good time ahead of that date.

10. (Loss) / earnings per share

The basic (loss) / earnings per share is calculated by dividing the result attributable to ordinary shareholders by the applicable weighted average number of shares in issue during the period, excluding those held in the Employee Benefit Trust.

The diluted (loss) / earnings per share is calculated by:

- taking losses / earnings attributable to ordinary shareholders adjusted where the effect would be dilutive by the interest expense of the Group's convertible bond net of tax; and
- dividing by the adjusted weighted average number of ordinary shares and where the effect would be dilutive, outstanding share awards and the conversion to ordinary shares of the Group's convertible bonds.

In accordance with IAS 33: Earnings per share, the calculation of basic and underlying diluted loss per share has not included items that are anti-dilutive. Therefore there is no difference between the calculation of basic and diluted loss per share in the 6-month periods ended 31 March 2014 and 31 March 2013.

Comparative figures for the year ended 30 September 2013 and the 6-month period ended 31 March 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

The additional underlying earnings per share measures have been given to provide the reader of the interim financial information with a better understanding of the results. For the purpose of this calculation, an underlying tax charge of 29% (2013: 27%) is used which excludes the tax effects of separately

Notes to the condensed consolidated interim financial information

disclosed items, acquisition related expenses, goodwill impairment charges and separately disclosed tax items.

Basic and diluted loss per share for the 6-month period ended 31 March 2014 were as follows:

	Loss for the 6-month period ended 31 March 2014 £m	Weighted average number of shares for the 6-month period ended 31 March 2014 Millions	Loss per share for the 6-month period ended 31 March 2014 Pence	Loss for the 6-month period ended 31 March 2013 (restated) £m	Weighted average number of shares for the 6-month period ended 31 March 2013 Millions	Loss per share for the 6-month period ended 31 March 2013 (restated) Pence
Basic and diluted loss per share	(273)	1,110	(24.6)	(266)	1,108	(24.0)
Separately disclosed items	(23)	–		8	–	
Acquisition related expenses and impairments	28	–		41	–	
Interest on joint ventures and associates	3	–		–	–	
Tax:						
– Tax base difference	(14)	–		(40)	–	
– Adjustment in respect of prior periods	21	–		–	–	
Basic and diluted underlying loss per share	(258)	1,110	(23.2)	(257)	1,108	(23.2)

Basic and diluted earnings per share for the year ended 30 September 2013 were as follows:

	Earnings Year ended 30 September 2013 £m (restated)	Weighted average number of shares 30 September 2013 Millions	Earnings per share 30 September 2013 Pence (restated)
Basic earnings per share	51	1,110	4.6
Effect of dilutive options	–	8	
Diluted earnings per share	51	1,118	4.6

Basic and diluted underlying earnings per share for the year ended 30 September 2013 were as follows:

	Earnings Year ended 30 September 2013 £m (restated)	Weighted average number of shares 30 September 2013 Millions	Earnings per share 30 September 2013 Pence (restated)
Basic earnings per share	51	1,110	4.6
Acquisition related expenses and impairments	253	–	
Separately disclosed items	24	–	
Tax base difference	6	–	
Basic underlying earnings per share	334	1,110	30.1
Effect of dilutive options	–	8	
Effect of convertible bonds	49	205	
Diluted underlying earnings per share	383	1,323	28.9

Non-GAAP measure

A reconciliation of underlying operating loss to underlying loss for the 6-month period ended 31 March 2014 is as follows:

	6-month period ended 31 March 2014 £m	6-month period ended 31 March 2013 (restated) £m
Underlying operating loss	(298)	(289)
Net underlying financial expenses	(71)	(63)
Underlying loss before tax	(369)	(352)
Underlying tax credit at 29% (2013: 27%)	107	95
Underlying loss for the period	(262)	(257)
Attributable to ordinary shareholders	(258)	(257)
Attributable to non-controlling interests	(4)	–
Underlying loss for the period	(262)	(257)

11. Acquisitions**Acquisitions in the 6-month period ended 31 March 2014**

During the 6-month period ended 31 March 2014, the Group acquired two businesses, including a further 41% of Le Passage to India Tours and Travels Private Limited ('LPTI'), a tour operator and destination management company, on 20 December 2013. The Group previously owned 50% of LPTI and accounted for this as a joint venture. The Group also acquired five travel agents in Germany. The total fair value of the consideration for these acquisitions was £25m, comprising £13m initial cash consideration, £2m deferred consideration and £10m non-cash consideration for the Group's share of the LPTI joint venture. The provisional fair value of assets acquired was £9m and the provisional goodwill arising for these acquisitions was £16m. This goodwill predominantly relates to the acquisition of LPTI and represents the ability to control fully that business with a view to driving economies of scale and participating fully in the Indian market. No goodwill is expected to be deductible for tax purposes.

The provisional fair values of the net assets acquired are set out below:

	£m
Intangible fixed assets	12
Tangible fixed assets	2
Cash and cash equivalents	2
Trade and other receivables	11
Trade and other payables	(15)
Deferred tax liabilities	(3)
Total	9

The acquisitions added £20m to the Group's revenue. The impact on the Group's loss before tax for the 6-month period was less than £1m as the Group previously included its share of LPTI's result as a joint venture.

The total cash outflow in the period from acquisition of subsidiaries and travel agencies (net of cash acquired) was £17 million, which comprised £11 million relating to current period acquisitions and £6 million of deferred and contingent consideration relating to prior period acquisitions.

12. Additions to property, plant and equipment and intangible assets

Additions to property, plant and equipment and intangible assets totalled £220m (2013: £293m) in the 6-month period to 31 March 2014. This comprises £6m (2013: £5m) for land and buildings; £11m (2013: £18m) for yachts, motor boats and cruise ships; £138m (2013: £187m) for aircraft and related equipment

Notes to the condensed consolidated interim financial information

including advance payments for future delivery of aircraft; £54m (2013: £41m) for computer hardware and software; and £11m (2013: £42m) of other equipment and intangibles.

In the 6-month period to 31 March 2014, net book value of property, plant and equipment and intangible assets disposed totalled £82m (2013: £58m), primarily relating to advance payments on the delivery and subsequent sale and leaseback of five aircraft (2013: three aircraft) with a value of £73m (2013: £39m).

13. Cash and cash equivalents

	31 March 2014 £m	31 March 2013 £m	30 September 2013 £m
Cash in hand	13	58	6
Cash at bank	911	287	920
Deposits	320	157	827
Cash and cash equivalents	1,244	502	1,753

For the period ended 31 March 2014, cash and cash equivalents have been shown gross of specific overdraft balances within the Group's pooling facilities where the Group does not currently have the intention to exercise its right to settle these particular balances simultaneously. The amount of cash balances presented gross of the related overdraft position is £509m. In the period ended 31 March 2013, the Group had both the contractual right as well as the intention to settle these balances on a net basis and therefore the related overdraft and cash balances were presented on a net basis.

At 31 March 2014, cash and cash equivalents includes £33m (2013: £27m) that is not available for immediate use by the Group. This is made up of monies held to meet regulatory requirements, together with cash balances on short term deposits, held on a restricted basis by the Group's captive insurance funds as part of their ongoing operations.

In addition to the above restricted cash balances, the Group has been involved in a long-running VAT legal case with the Belgian government. During the year ended 30 September 2013, £98m was received from the Belgian government in relation to the disputed VAT for the years up to and including 30 September 2011. The Belgian government made this payment to the Group to prevent the further accumulation of an interest charge in the event that the government lost the ongoing VAT legal case. On 13 March 2014 the European Court of Justice ruled in favour of the Belgian government. Whilst this matter cannot be pursued any further in the European courts, the Group is assessing various options for mounting challenges within the Belgian courts. Therefore the outcome of the case remains uncertain and it is not expected to be resolved in the near future.

Given the uncertainty, the Group continues to accrue VAT payable on the existing basis, although it is hoped that the law in Belgium will be changed shortly. If the Group were to win the legal case, the amount recovered would be subject to corporation tax in Belgium. This money is currently held on a bank deposit account in order that a collateralised bank guarantee can be provided to the Belgian government for the duration of the legal proceedings to give them assurance that they will be paid the money back should they win the case. This receipt is shown in the consolidated statement of cash flows as the item fulfils the IAS 7 criteria for cash and cash equivalents and therefore the balance is included in cash and cash equivalents. In view of the guarantee provided to the Belgian Government, the Group's ability to use this cash is restricted.

14. Interest-bearing loans and borrowings

	31 March 2014 £m	31 March 2013 £m	30 September 2013 £m
Current liabilities			
Bank loans and overdrafts	524	48	528
Convertible bond	344	–	–
Finance leases and hire purchase contracts	28	29	22
Other financial liabilities	46	46	44
Total	942	123	594

Notes to the condensed consolidated interim financial information

For the period ended 31 March 2014, bank overdrafts have been shown gross of specific cash balances within the Group's pooling facilities where the Group does not currently have the intention to exercise its right to settle these particular balances simultaneously. The amount of bank overdrafts presented gross of the related cash position is £509m. In the period ended 31 March 2013, the Group had both the contractual right as well as the intention to settle these balances on a net basis and therefore the related overdraft and cash balances were presented on a net basis.

Other financial liabilities mainly comprise the fair value of two put options written by the Group to the sole remaining non-controlling interest shareholder in L'TUR Tourismus AG which may require the Group to purchase the non-controlling interest shareholding, totalling 30%. The first put option over 20% of the shares may be exercised at any time until 2015. A second put option written by the Group to the same non-controlling interest shareholder for the remaining 10% shareholding has no time limit.

	31 March 2014 £m	31 March 2013 £m	30 September 2013 £m
Non-current liabilities			
Amounts owed to related parties	–	10	–
Bank loans and loan notes	488	462	62
Finance leases and hire purchase contracts	295	270	253
Convertible bonds	365	686	697
Total	1,148	1,428	1,012

	31 March 2014 £m	31 March 2013 £m	30 September 2013 £m
Convertible bonds			
£350m convertible bond 6.0% - due October 2014	344	332	336
£400m convertible bond 4.9% - due April 2017	365	354	361
Total	709	686	697

The Group has two convertible bonds in issue, details of which are as follows:

- A £350m fixed rate 6% bond was issued in October 2009, raising £341m net of issue costs. The bond is convertible at the option of the holder, before or upon maturity in October 2014 and is presented within current liabilities. Conversion into ordinary shares will occur at a premium of 33% to the Group's share price on the date of issuance.
- A £400m fixed rate 4.9% bond was issued in April 2010, raising £391m net of issue costs. The bond is convertible at the option of the holder, before or upon maturity in April 2017 and is presented within non-current liabilities. Conversion into ordinary shares will occur at a premium of 33% to the Group's share price on the date of issuance.

15. Current trade and other payables

	31 March 2014 £m	31 March 2013 £m	30 September 2013 £m
Customer deposits	2,759	2,585	1,768
Other	2,069	2,192	3,005
Current trade and other payables	4,828	4,777	4,773

16. Movements in cash and net debt

	Cash and cash equivalents £m	Convertible bonds £m	Bank loans £m	Loan notes £m	Finance leases £m	Other financial liabilities £m	Total £m	Restricted cash £m	Available net cash/(debt) £m
At 1 October 2013	1,753	(697)	(589)	(1)	(275)	(44)	147	(145)	2
Cash movement	(491)	–	(406)	–	12	1	(884)	14	(870)
Increase in bank balances presented gross	18	–	(18)	–	–	–	–	–	–
Non-cash movement	–	(12)	–	–	(67)	(3)	(82)	–	(82)
Foreign exchange	(36)	–	2	–	7	–	(27)	–	(27)
At 31 March 2014	1,244	(709)	(1,011)	(1)	(323)	(46)	(846)	(131)	(977)

	Cash and cash equivalents £m	Convertible bonds £m	Amounts due to related parties £m	Bank loans £m	Loan notes £m	Finance leases £m	Other financial liabilities £m	Total £m	Restricted cash £m	Available net (debt)/cash £m
At 1 October 2012	830	(675)	(10)	(23)	(1)	(186)	(43)	(108)	(34)	(142)
Cash movement	(388)	–	–	(457)	–	12	–	(833)	7	(826)
Non-cash movement	–	(11)	–	(24)	–	(111)	(1)	(147)	–	(147)
Foreign exchange	60	–	–	(5)	–	(14)	(2)	39	–	39
At 31 March 2013	502	(686)	(10)	(509)	(1)	(299)	(46)	(1,049)	(27)	(1,076)

As set out in Note 13, cash and cash equivalents included £131m (2013: £27m) of restricted cash.

The 2014 non-cash movement of £12m (2013: £11m) in convertible bonds primarily relates to the accretion of convertible bonds.

The 2014 movement of £18m between cash and cash equivalents and bank loans and overdrafts reflects the impact of specific overdraft balances being presented on a gross basis. Other non-cash movements in 2013 within bank loans and overdrafts and finance leases predominantly relate to advances in respect of additions to property, plant and equipment.

17. Fair values**(a) Fair value measurements**

IFRS 7 requires enhanced disclosures about fair value measurements of financial instruments through the use of a three level fair value hierarchy that prioritises the valuation techniques used in fair value calculations.

The levels can be broadly described as follows:

- Level 1 – use of unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – use of observable inputs other than quoted prices included within level 1, such as quoted prices for similar assets or liabilities in active markets
- Level 3 – use of inputs not based on observable market data but reflecting management's own assumptions about pricing the asset or liability.

The Group maintains policies and procedures to value instruments using the most relevant data available. If there are multiple inputs available that fall into different levels of the hierarchy, the instrument is categorised on the basis of the lowest level input.

Notes to the condensed consolidated interim financial information

The Group's financial assets and liabilities, excluding finance lease liabilities, measured at fair value at 31 March 2014 are categorised as follows:

31 March 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Assets				
Trade and listed investments	14	–	11	25
Derivative financial instruments	–	35	–	35
Total assets	14	35	11	60
Liabilities				
Derivative financial instruments	–	(166)	–	(166)
Other financial liabilities held at fair value	–	–	(50)	(50)
Total liabilities	–	(166)	(50)	(216)
Total	14	(131)	(39)	(156)

31 March 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Assets				
Trade and listed investments	14	–	37	51
Derivative financial instruments	–	207	–	207
Total assets	14	207	37	258
Liabilities				
Derivative financial instruments	–	(113)	–	(113)
Other financial liabilities held at fair value	–	–	(41)	(41)
Total liabilities	–	(113)	(41)	(154)
Total	14	94	(4)	(104)

The movements in level 3 instruments, measured on a recurring basis, for the period ended 31 March 2014 are as follows:

	Trade and other investments £m	Other financial liabilities held at fair value £m	Total level 3 instruments £m
At 1 October 2012	36	(41)	(5)
Cash settlement of contingent consideration	–	2	2
Adjustment of deferred consideration through goodwill	–	(2)	(2)
Purchase of trade investments	1	–	1
At 31 March 2013	37	(41)	(4)
At 1 October 2013	42	(48)	(6)
Cash settlement of contingent consideration	–	4	4
Disposal of trade investments	(31)	–	(31)
Adjustment of deferred consideration through goodwill	–	(3)	(3)
Charged to income statement	–	(3)	(3)
At 31 March 2014	11	(50)	(39)

The following methods and assumptions were used to measure the fair value of financial instruments carried at fair value on the balance sheet:

Trade and listed investments

The level 1 trade investment totalling £14m mainly consists of the Group's holding in Air Berlin PLC represented by 4.4% (2013: 4.4%) shareholding. The fair value of £12m (2013: £14m) is determined by reference to its equity share price at the balance sheet date. The Group also has an investment in mutual funds via LPTI, the fair value of £2m being based on the net asset value as obtained from fund managers.

As at 31 March 2014, £11m (2013: £37m) of trade and other investments were categorised as level 3 instruments. These consist of the Group's remaining £4m (2013: £30m) investment in The Airline Group Limited and other trade investments in the equity of unlisted companies of £7m (2013: £7m).

During March 2014 the Group sold 87.4% of its shareholding and loan note interests in The Airline Group Limited. The Group's remaining investment in this company has been valued using the sales price received for the portion disposed.

Derivatives financial instruments

Derivatives are valued in the market using discounted cash flow techniques. These techniques incorporate inputs at level 2, such as interest rates, commodity prices and foreign currency exchange rates. These market inputs are used in the discounted cash flow calculation incorporating the instrument's term, notional amount, volatility, discount rate and taking credit risk into account. As significant inputs to the valuation are observable in external markets, these instruments are categorised as level 2 in the hierarchy.

Other financial liabilities held at fair value

The principal element of the put options of £41m to acquire the remaining equity stake in L'TUR Tourismus AG (2013: £37m) are classified as an other financial liability with changes in fair value included in operating profit. They have been valued using the minimum price stipulated in the contracts plus adjustments based on estimated operating results in the three years preceding any exercise of the options. Contingent consideration of £6m (2013: £4m) is also measured at fair value based on the relevant contracts.

There are no reasonably possible changes in assumptions which would materially alter the value of these level 3 financial instruments. The Group transfers financial instruments between different levels in the fair value hierarchy when, as a result of an event or change in circumstances, the valuation methodology applied in determining their fair values alters in such a way that it meets the definition of a different level. There were no transfers between the level 1, level 2 and level 3 fair value measurement categories in the period.

There are no material differences between the carrying value of the Group's financial assets and liabilities and their estimated fair values, with the exception of convertible bonds and finance lease liabilities, for which the carrying amounts and fair values are set out in the table below at 31 March 2014 and at 31 March 2013.

	31 March 2014		31 March 2013	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Borrowings				
Convertible bonds	(709)	(948)	(686)	(834)
Finance lease liabilities	(323)	(316)	(299)	(304)
Total	(1,032)	(1,264)	(985)	(1,138)

The following methods and assumptions are used to estimate the fair values of financial assets and liabilities which are not measured at fair value on the balance sheet:

- Cash and cash equivalents – approximates to the carrying amount
- Convertible bonds – based on quoted market prices as traded on Bloomberg

Notes to the condensed consolidated interim financial information

- Bank loans and overdrafts including Loan notes – approximates to the carrying amount because of the short term maturity of these instruments
- Finance lease liability – this is valued by discounting cashflows using the market related finance lease rates
- Other financial assets and liabilities including amounts owned to related parties - approximates to the carrying amount.

(b) Derivative financial instruments

At the balance sheet date the fair value of the Group's derivative financial assets and liabilities was as follows:

	31 March 2014			31 March 2013		
	Assets fair value £m	Liabilities fair value £m	Total fair value £m	Assets fair value £m	Liabilities fair value £m	Total fair value £m
Cash flow hedges						
Foreign exchange forwards	25	(148)	(123)	191	(73)	118
Commodity options	–	–	–	2	–	2
Commodity swaps	7	(10)	(3)	14	(25)	(11)
	32	(158)	(126)	207	(98)	109
Derivatives not hedge accounted						
Interest rate swap	–	(1)	(1)	–	–	–
Foreign exchange forwards	3	(7)	(4)	–	(15)	(15)
Total	35	(166)	(131)	207	(113)	94
<i>Analysed as:</i>						
Current	31	(149)	(118)	177	(100)	77
Non-current	4	(17)	(13)	30	(13)	17
Total	35	(166)	(131)	207	(113)	94

18. Capital commitments

The following amounts have been contracted but not provided for at the balance sheet date:

	31 March 2014 £m	31 March 2013 £m	30 September 2013 £m
Capital commitments	4	16	3

In addition to the above items, at 31 March 2014 the Group had contracted to purchase 76 (2013: 25) aircraft with initial deliveries commencing in the third quarter of the financial year 2014. At list price, the total order value is US\$9,715m (2013: US\$3,264m) before discounts.

The Group intends to refinance these aircraft in advance of their delivery dates and therefore does not expect to use its own cash resources for their purchase.

The Group's share of its joint ventures and associates capital commitments was £14m at 31 March 2014 (2013: £7m).

19. Contingent liabilities

The Group is at any time defending a number of actions against it arising in the normal course of business. Provision is made for these actions where this is deemed appropriate. Information regarding contingent liabilities and provisions in respect of tax are disclosed on page 139 of the Group's 2013 Annual Report & Accounts. No other actions which are outstanding at 31 March 2014 are expected to

have a material effect on the condensed consolidated interim financial information. The Directors consider that adequate provision has been made for all known liabilities.

20. Related party transactions

(a) Ultimate controlling party

The Group's ultimate controlling party is TUI AG, a company registered in Berlin and Hanover (Federal Republic of Germany).

(b) Related party transactions

The Group held receivables of £134m (2013: £118m) and payables of £133m (2013: £113m) with its own joint ventures and associates and with TUI AG and its subsidiaries, joint ventures and associates, which arose through the normal course of business, including under the Hotel Framework Agreement and Trademark Licence Agreement, details of which are set out in Note 31 of the Group's 2013 Annual Report & Accounts. During the current and prior financial periods, the Group transacted with its joint ventures and associates in the normal course of business. These transactions did not have a significant impact on the result for the periods.

The Group has an agreement with S-Group Capital Management Limited (SGCM), regarding Togebe Holdings Limited, a jointly-owned investment company, owned 51% by SGCM and 49% by the Group. The joint venture owns four subsidiary tour operators and travel agency groups in Russia and Ukraine. These businesses form the majority of our Emerging Markets Sector. SGCM is owned by a significant shareholder of TUI AG and is therefore considered to be a related party. Togebe Holdings Limited (Togebe) and its subsidiary undertakings are also considered to be related parties.

During the 6-month period ended 31 March 2014, TUI Travel Holdings Limited, a direct subsidiary of the Company, injected a further £5m of capital into Togebe and provided a one year interest-bearing loan of £4m for the purpose of providing short term liquidity. On 16 April 2014, TUI Travel Holdings Limited injected a further £3m of capital into Togebe as part of the Group's continuing financial support of this venture.

During the period, the Group, through one of the Company's indirect subsidiaries, has provided capital injections totalling £17m into Bartu Turizm Yatirimlari Anonim Sirketi (Bartu), a 50% joint venture of the Group.

21. Post balance sheet events

No other material events have occurred subsequent to the end of the interim period that have not already been disclosed elsewhere in this report.

Responsibility statement of the Directors in respect of the condensed consolidated interim financial information

The Directors confirm that to the best of their knowledge:

- the condensed consolidated interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial information; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

The maintenance and integrity of the TUI Travel PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of TUI Travel PLC are listed on page 66 & 67 of the TUI Travel PLC Annual Report & Accounts for the year ended 30 September 2013, except for the following changes that have taken since the date of signing the Annual Report & Accounts on 9 December 2013:

- On 16 December 2013 Tony Campbell resigned as a Non-Executive Director and Volker Bottcher resigned as an Executive Director;
- On 7 February 2014, Valerie Gooding was appointed as an Independent Non-Executive Director and Vladimir Yakushev was appointed as a Non-Executive Director; and
- On 24 March 2014 Vladimir Yakushev resigned as a Non-Executive Director.

On behalf of the Board of Directors

Will Waggott
Chief Financial Officer
12 May 2014

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the 'half-yearly financial report' of TUI Travel PLC for the six months ended 31 March 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by TUI Travel PLC, comprise:

- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated balance sheet as at 31 March 2014;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The half-yearly financial report, including the condensed consolidated interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
12 May 2014
London