TUI Travel PLC

More than a smile

Driving sustainable growth

ANNUAL REPORT & ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2013

Operational & financial highlights

- **Record underlying operating profit delivered; 2013 growth roadmap target exceeded**
  - > Underlying operating profit of £589m (2012: £490m), an increase of 20% over the prior year. Underlying operating profit increase of 13% to £555m on a constant currency* basis.
  - > Record Mainstream underlying operating profits of £514m (2012: £420m).
  - > Underlying UK operating profit growth of 27% to £251m (2012: £197m) with an operating margin increase of 110bp to 6.5%.
  - > Underlying German operating profit growth of 30% to £113m (2012: £87m) with operating margin up 50bp to 2.7%.
  - > Business improvement programme delivered higher than expected £46m of additional profit in the year.
  - > Strong underlying earnings per share growth of 19% to 30.8p (2012: 25.8p).
  - > Statutory operating profit of £297m (2012: £301m), with the reduction driven by a goodwill impairment of £188m relating to our Specialist & Activity business and French tour operator.
- **Mainstream growth driven by unique holidays, direct distribution and One Mainstream**
  - > Sales of higher-margin unique holidays now 69% of Mainstream holidays. Directly distributed holidays are 66% of Mainstream holidays, with online sales at 35%.
  - > Record levels of customer satisfaction, up two percentage points to 79% across our key markets.
  - > Our investment in the digital customer service proposition and our online platform is delivering clear benefits to our customers.
- **Leveraging our global leadership position in Accommodation Wholesaler**
  - > Accommodation Wholesaler continues to consolidate its global leadership position; TTV growth of 23% to £1,655m driven by a strong performance in Asia and Latin America.
- **Delivering increased shareholder value**
  - > Record cash flow generation, with free cash flow of £427m, an improvement of £122m. The net cash position of £2m** (2012: net debt of £142m)** provides further balance sheet strength.
  - > Cash conversion improved by 12 percentage points to 90%, underlying ROIC improved by 2.6 percentage points to 14.8%.
  - > Final dividend increase of 17% to 9.75p per share (2012: 8.3p), resulting in a full year dividend increase of 15% to 13.5p per share (2012: 11.7p).
- **Robust current trading**
  - > Overall, Winter 2013/14 trading is in line with our expectations with 60% of the programme sold.
  - > Pleased with Summer 2014 trading, despite strong comparatives from the prior year.
  - > We remain confident of delivering this year, in line with our target to deliver 7% to 10% underlying operating profit growth at constant currency over our five-year growth roadmap.

* Constant currency basis calculated by translating the 2013 results at 2012 exchange rates
** Excludes restricted cash

	Underlying results[1]			Statutory results	
Year ended 30 September	**2013 £m**	2012 £m	Change %	**2013 £m**	2012 £m
Revenue	**15,051**	14,460	+4%	**15,051**	14,460
Operating profit	**589**	490	+20%	**297**	301
Profit before tax	**473**	390	+21%	**181**	201
Free cash flow[2]	**427**	305	+40%	**427**	305
Basic earnings per share (pence)	**30.8**	25.8	+19%	**5.4**	12.5
Dividend per share (pence)	**13.5**	11.7	+15%	**13.5**	11.7

[1] Underlying operating profit excludes separately disclosed items, acquisition related expenses, impairment of goodwill and available for sale financial assets and interest and taxation of results of the Group's joint ventures and associates
[2] Restated to reflect the exclusion of restricted cash and pre-delivery payments

Revenue
£15,051m
2012: £14,460m +4%

Underlying operating profit
£589m
2012: £490m +20%

Underlying profit before tax
£473m
2012: £390m +21%

Free cash flow
£427m
2012: £305m +40%

Basic underlying earnings per share
30.8p
2012: 25.8p +19%

Dividend per share
13.5p
2012: 11.7p +15%

Our vision
Making travel experiences special...

See our 'Strategic framework and business models' on page 14

Who we are

TUI Travel PLC (TUI Travel or the Group) is one of the world's leading leisure travel groups, operating in approximately 180 countries worldwide and comprising over 220 brands. We serve more than 30 million customers across 31 source markets making us a global player in a growing industry. Headquartered in the UK, we employ approximately 55,000 people and operate six airlines consisting of 138 aircraft.

Through our global brand portfolio and our travel expertise we are focused on delivering a wide variety of leisure travel experiences designed for our customers' ever changing needs.

The Group is structured and managed through three principal business sectors: Mainstream, Accommodation & Destination and Specialist & Activity.

See 'Our structure' on page 12

TUI Travel is listed on the London Stock Exchange as a member of the FTSE 100 and FTSE4Good Indices with the ticker code TT.

For more information visit www.tuitravelplc.com

STRATEGIC REPORT
ifc Operational & financial highlights
02 Where we operate
04 TUI Travel at a glance
06 Our featured brands
08 Chairman's statement
09 Chief Executive's statement
10 Why we do it: Market overview
12 How we do it: Our structure
14 How we do it: Our strategic framework and business models
16 How we do it: Our five strategic drivers
26 How we do it: Sustainable development
34 How we do it: Our people
38 How we measure it: Key performance indicators
42 What are the risks? Principal risks
52 Health & Safety

BUSINESS AND FINANCIAL REVIEW
54 Group performance
57 Our growth levers
59 Segmental performance
63 Current trading and outlook
64 Tax

DIRECTORS' REPORT
66 Board of Directors
68 Corporate Governance report
73 Audit Committee
78 Nomination Committee
79 Remuneration report
99 Other statutory disclosures
102 Directors' responsibilities

FINANCIAL STATEMENTS
104 Independent Auditors' report (Group)
107 Consolidated income statement
108 Consolidated statement of comprehensive income
109 Consolidated balance sheet
110 Consolidated statement of changes in equity
111 Consolidated statement of cash flows
112 Notes to the consolidated financial statements
175 Independent Auditors' report (Parent Company)
176 Company balance sheet
177 Notes to the Company's financial statements

SHAREHOLDER INFORMATION
182 Financial calendar
182 Contacts and advisers
182 Glossary of key terms
183 Shareholder discount
184 Index

- STRATEGIC REPORT
- BUSINESS AND FINANCIAL REVIEW
- DIRECTORS' REPORT
- FINANCIAL STATEMENTS
- SHAREHOLDER INFORMATION

Where we operate

TUI Travel is a global business operating across 31 key source markets

OUR 31 KEY SOURCE MARKETS

- Australia
- Austria
- Belgium
- Brazil
- Canada
- China
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Hungary
- India
- Ireland
- Italy
- Luxembourg
- Mexico
- The Netherlands
- New Zealand
- Norway
- Poland
- Russia
- Singapore
- Slovenia
- Spain
- Sweden
- Switzerland
- Thailand
- Ukraine
- United Kingdom
- United States

NORTH AMERICA

Brightspark school trip, New York

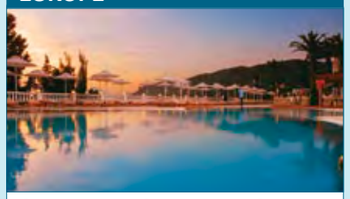
OPERATIONS

The US and Canada are popular destinations for both our Mainstream and Specialist & Activity Sectors, with a selection of specialist brands operating out of North America, including Quark Expeditions and TCS & Starquest. There is also a market for national travel within the US, which includes educational trips and Spring Break. Outside of Europe, Canada is one of our largest source markets.

£15bn

Revenue generated from across all the Group's businesses

EUROPE



Sensimar, Agios Gordios Beach, Corfu

OPERATIONS

Europe is the home of many of our key source markets and destinations. The Group is operated out of the United Kingdom, and has key markets in Spain, the Nordics & Germany, with Mediterranean locations consistently some of our most popular destinations.

£46m

Delivered from business improvement programmes

£589m

Underlying operating profit achieved for the financial year 2013

ASIA & AUSTRALASIA

Krabi Beach, Thailand

OPERATIONS

Asia is a key area of focus as we concentrate our attention on various emerging economies across the continent. AsiaRooms.com, the online travel agent, is growing quickly in line with demand for holiday accommodation in Asia, focusing on Malaysia, Singapore and Australia. Australia is also home to some of our Specialist & Activity brands. One of our leading joint ventures, PEAK, is based in Australia, along with a selection of sports brands in both Australia and New Zealand.

CENTRAL & SOUTH AMERICA

Isla Saona Beach, Ires, Dominican Republic

OPERATIONS

We remain keen to develop our operations in South America and continue to assess the viability of these countries both as source markets and as destinations. The Caribbean and Mexico are very popular destinations for our customers and many adventure brands use South or Central America as destinations for their trips. Last year we invested in the Brazil-based online travel agent MalaPronta and continue to grow this business.

AFRICA

i-to-i conservation project in Kenya

OPERATIONS

Africa remains a key destination market for TUI Travel, both in our Mainstream Sector and Specialist & Activity Sector. Key destinations for the Mainstream Sector include Morocco, Cape Verde and Mauritius whilst Specialist & Activity brands such as World Challenge tend to operate more in Southern Africa, Zambia, Tanzania and Botswana.

TUI Travel at a glance

THE INVESTMENT CASE

Reasons to invest in TUI Travel PLC

Our growth levers:

Creating shareholder value

- Delivering Mainstream growth
  - > Unique holidays only available from TUI Travel
  - > Distributed directly to the customer – growth from online
  - > Leveraging our scale
- Organic Specialist & Activity growth
- Leveraging our global leadership position in Accommodation Wholesaler through growth in existing markets
- Investing in Accommodation OTA – focus on high growth and new markets
- Focus on free cash flow generation, ROIC and operational efficiency
- Pioneering sustainability change in our sector

See more on pages 57 and 58

WHAT WE DO

WHY WE DO IT

Market overview

Leisure travel market:

- 2012 saw international arrivals break the one billion mark for the first time ever
- Travel and tourism accounts for 9% of global GDP and 1 in 11 jobs worldwide
- Market growth rate of 4% during 2012 and continues to be one of the world's fastest growing sectors
- An average growth rate of 4% since 1995 and set to continue
- Demand remains strong for leisure travel despite an uncertain economic environment
- Continues to be driven by high growth in online bookings (see KPIs)
- **We are well positioned to benefit from the market's size and growth.**

See more information on page 10

HOW WE DO IT

Strategic framework, business models, strategy, sustainability and people

Our Strategy

Through our global brand portfolio and travel expertise we are focused on delivering leisure travel experiences designed for our customers' ever changing needs

Two strong business models

addressing the different customer demands within the market – Tour Operator and Online Accommodation

Our Strategic Drivers

Content, Brands & Distribution, Technology, Growth & Scale and People

Our Values

Customer Driven, Playing to Win, Responsible Leadership and Value Driven

Sustainable Development

Taking care in destinations, reducing carbon emissions and engaging our colleagues and customers in sustainability

Our People

Engaging, enabling and investing in our 55,000 people is key to the Group's success

See more information on pages 12 to 37

HOW WE MEASURE IT

Our key KPIs

Return on invested capital
14.8% vs 12.2% *(2013 vs 2012)*

Cash conversion[1] %
90% vs 78% *(2013 vs 2012)*

Free cash flow excludes net aircraft pre-delivery payments and movements in restricted cash

Unique holidays mix, as a proportion of total Mainstream Sector holidays
69% vs 65% *(2013 v 2012)*

Direct distribution mix, as a proportion of total Mainstream Sector holidays
66% vs 65% *(2013 vs 2012)*

Online distribution mix, as a proportion of total Mainstream Sector holidays
35% vs 33% *(2013 vs 2012)*

Turnaround and cost savings delivered
£46m

Increase in roomnights for the Accommodation Wholesaler business
+16% vs +13% *(2013 vs 2012)*

Carbon efficiency, measured through TUI Travel airlines' average carbon emissions per revenue passenger kilometre (CO_2/RPK):
70.7g CO_2/RPK vs 73.0g CO_2/RPK *(2013 vs 2012)*

See more information on page 38

WHAT ARE THE RISKS?

Principal risks

Strategic risks

- Consumer preferences and desires
- Business improvement opportunities
- Emerging markets, acquisitions and investments

Operational risks

- Global financial factors
- Regulatory environment
- Talent management
- Political volatility, natural catastrophes and outbreaks

Compliance risk

- Regulatory environment

See more information on page 42

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

Our featured brands

TUI Travel operates over 220 brands which are available to view on our website **www.tuitravelplc.com/brand-experience**. A selection of our featured brands includes:

180
The number of countries the Group operates in

TUI

In Germany TUI is one of the best known consumer brands and the favourite holiday brand for consumers and travel agencies alike. It has a market-leading position.

For more visit www.tui.com

Thomson

Thomson has been selling holidays from the UK for over 50 years. It is one of the UK's most well known holiday brands, delivering unique and modern holiday experiences. In 2013, 90% of hotels in its brochures will be exclusive to Thomson.

For more visit www.thomson.co.uk

Fritidsresor

Fritidsresor is the leading tour operator and retail business in the Swedish source market, offering package tours to destinations worldwide, including the Mediterranean, Canary Islands and Thailand.

For more visit www.fritidsresor.se

Jetair

Jetair is TUI Belgium's master brand. It is a tour operator which offers a range of air and car holidays and city trips.

For more visit www.jetair.be

airtours

airtours is a luxury holiday brand which, for more than 40 years, has offered the most comprehensive, individual and exclusive holidays in the German speaking market.

For more visit www.airtours.de

LateRooms.com

LateRooms.com is the UK's leading online accommodation specialist providing a whole world of hotel possibilities for customers, from boutique to chain hotels, cosy B&Bs to luxury spas.

For more visit www.laterooms.com

hotelbeds

Hotelbeds is the global accommodation wholesaler with an online database supplying over 60,000 hotels in 180 countries to travel agents, airlines and tour operators.

For more visit www.hotelbeds.com

INTERCRUISES SHORESIDE & PORT SERVICES

Intercruises Shoreside & Port Services is an experienced global business offering first class ground handling and port agency services to the ocean and river cruise industry.

For more visit www.intercruises.com

The Moorings

The Moorings is the world's leading yacht charter company with over 500 yachts in 27 cruising destinations worldwide. The Moorings offers a collection of memorable getaways from hands-on sailing or power yacht vacations to all-inclusive private luxury crewed yachts.

For more visit www.moorings.com

Quark Expeditions

For over 20 years, Quark Expeditions has been the leading provider of polar adventure travel. With its diverse fleet of specially equipped vessels and seasoned expedition leaders, it offers travellers unparalleled access to the most remote regions on earth.

For more visit www.quarkexpeditions.com

Arke

TUI Netherlands operates Arke, the leading B2C travel brand in the Dutch source market and a household name. Besides tour operating, it operates 120 travel shops, a call centre and the website Arke.nl. Arke is an important supplier of passengers to the airline ArkeFly, also operated by TUI Netherlands.

For more visit www.arke.nl

CRYSTAL

With over 30 years' experience, Crystal is the UK's number one ski operator, taking customers to more of the world's best snow resorts than anyone else. From self-catering apartments to cosy, friendly ski chalets.

For more visit www.crystalski.co.uk

Chairman's statement

This has been another record breaking year for TUI Travel. It is my first year as Chairman of the Company and I am delighted to report a 20% increase in underlying operating profit to £589m, or 13% on a constant currency basis to £555m (2012: £490m). This has generated growth in our underlying basic earnings per share (EPS), having increased by 19% to 30.8p (2012: 25.8p). Our statutory operating profit decreased slightly to £297m (2012: £301m) largely due to the £188m impairment of goodwill, meaning our statutory EPS has moved from 12.5p to 5.4p for 2013.

We operate in a market segment that, as a matter of course, has to weather geo-political events. As a result, it is vital that we have a strong and resilient business model that enables us to deliver on our strategy, which in turn drives long-term sustainable growth and increased shareholder returns. All of which, I am pleased to report, have been achieved this year.

The travel and tourism sector has continued to grow by an average of 4% annually since 1995, and is forecast to grow by 3.1% in 2013 alone – outpacing the global economy. The comparable growth of TUI Travel is testament to what a fantastic year this has been, and shows how well we are positioned to continue to deliver on our annualised 7-10% growth plan.

Results

Our financial performance comes as a result of our continued commitment to delivering high-quality unique holidays direct to our customers. This is coupled with a resilient business model and ambitious yet achievable growth roadmap. Our commitment to the customer is also delivering measurable results. Across Mainstream, this year we reported record levels of customer satisfaction, up two percentage points from 2012 to reach 79% (2012: 77%). Further to this, our higher-margin unique holiday sales increased by four percentage points, accounting for 69% of Mainstream holidays sold (2012: 65%), proving that our strategy to focus on unique holidays is working.

For more information, please see page 54

Dividends

We have a progressive dividend policy and it is the Group's aim to maintain underlying dividend cover at around two times. Reflecting this year's performance, the Board is recommending a final dividend per share of 9.75p per share (2012: 8.3p), an increase of 17%. At the time of our interim results, the Board proposed an increase of 10% to 3.75p (2012: 3.4p), leading to a full year dividend of 13.5p per share, up 15% from 11.7p in 2012.

Board

On 8 February 2013 I was appointed as a Non-Executive Director, and on 25 March 2013, was appointed to replace Dr Michael Frenzel as Non-Executive Chairman of the Board following his retirement. On the same day, Sebastian Ebel became a Non-Executive Director.

For more information on the Board, please see page 66

Sustainable development

TUI Travel is a truly worldwide organisation and we are committed to operating our business in a sustainable manner. We have a three-year Sustainable Holidays Plan, launched in 2012, which sets out four overarching goals with 20 measurable and challenging commitments to responsible tourism. In this report we highlight progress from the second year of the plan and were pleased to see some promising results, particularly in terms of carbon management. We achieved our airline carbon reduction target of 9% (2008-2014) one year ahead of schedule with a reduction in our airlines' per passenger carbon emissions of 3.2% year-on-year to 70.7g CO_2/RPK (2012: 73.0g CO_2/RPK).

Sustainability is ingrained in our business culture, not just for our own future as a business but as industry leaders to set an example to the wider travel industry and beyond.

For more information, please visit page 26

Colleagues

The customer is at the centre of everything we do, but equally important to our success are our colleagues. TUI Travel is an organisation built from a workforce of over 55,000 dedicated colleagues worldwide, all of whom share a common set of values which together creates TUI Travel and drives our performance as a market leader.

The hard work and commitment of this network of colleagues is vital to the success we have had to date. They play an integral part in driving our future growth. On behalf of the Board, I would like to thank personally every one of our colleagues for putting in such a fantastic effort and helping us achieve the performance we have had in this record-breaking year.

Friedrich Joussen
Non-Executive Chairman

Another record breaking year for TUI Travel...

15%
Growth in full year dividend

Chief Executive's statement

As a Group we have had a great year. Because of this, I'd like to start by thanking our colleagues across the business who have pushed themselves to deliver this fantastic set of results. Thank you.

This financial year has been exceptional and our strategy continues to bear fruit. For the sixth year running we have delivered a record underlying operating profit. This year we achieved £589m (2012: £490m), representing growth of 20% over the 12-month period. On a constant currency basis, our underlying operating profit increased 13% to £555m (2012: £490m) surpassing the top end of our growth roadmap target (10%). Revenue has increased during the financial year by 4% to £15.1 billion, or on a constant currency basis, 2% to £14.7bn (2012: £14.5bn). Our two largest source markets saw underlying operating profit growth of 27% in the UK and 30% in Germany, delivering £251m (2012: £197m) and £113m (2012: £87m) respectively, while margins continue to improve.

Following these results it is obvious that our strategy of selling unique holidays directly to our customers is the right one. As the business continues its move towards a more online future, and while we efficiently manage our costs, we continue to build upon the foundations of a business set for sustainable growth. Our colleagues within the business care deeply about the customer experience and everything we do is built around enhancing it at every level, through every stage of the customer journey, from dreaming of a holiday to sharing it with family and friends once they have returned home.

Over two-thirds of Mainstream holidays booked are now unique holidays, an increase on last year that has been steadily rising since 2007 when this became the focus of our strategy. The main benefits of unique holidays are five-fold. They provide higher margins, are often booked earlier leading to better yield management and efficiency and we receive excellent customer feedback that, in the majority of cases, leads to repeat bookings and advocacy within our customer base. One of our flagship unique holiday concepts is Sensatori from Thomson, which received a 92% customer satisfaction score this year. We have continued growing our unique holiday portfolio across the Group and remain committed to identifying opportunities to develop it further.

Our direct distribution channels are key to the Group's success and enable us to increase margin and improve results. The number of holidays booked through our Mainstream websites continues to increase and this remains the core contributor for direct sales. Of our direct sales, 35% are online, which equates to £3.7 billion in revenue. There is still ample opportunity to increase direct distribution channels which will help us gain further margin across all our source markets.

We are an online business but we continue to drive further enhancements through technologies that amplify the customer experience at the front-end and drive further efficiencies in the back-end processes. In May this year we launched the award-winning TUI Digital Assistant in the UK as the 'MyThomson' mobile app, which was very well received by customers, achieving a five star rating in the Apple App Store and topping the free download travel app chart shortly after launch. Since then, we have had in excess of 180,000 downloads, proving we understand what our customers want and need from their travel provider. Post year end, we began the TUI Digital Assistant international roll-out with the 'Meine TUI' mobile app launch in the German source market.

I am pleased to say that we were the first business in the UK to take delivery of the Boeing 787 Dreamliner that has exceeded customer and our own expectations in its first few months of operation. This has enabled us, and will continue to enable us, to fly to new and exciting destinations such as Thailand from the UK. In May we committed to purchasing 60 new Boeing 737 MAX aircraft and secured the option and right to purchase another 90 on the same terms. The deal will enhance our unique offering, replace older aircraft, improve fuel efficiency and help secure the future of our six airlines. The delivery of the 60 committed aircraft will run from January 2018 until March 2023.

It has been a record year for us but we don't believe it will stop there. We are pleased with the performance at the start of Winter 2013/14, with 60% of the programme sold, and we are encouraged by early Summer 2014 trading against strong comparatives.

TUI Travel is structurally well positioned with a robust business model that gives us a long term competitive advantage. The business continues to deliver sustainable growth through our unique holiday experiences, increasingly distributed online, whilst leveraging its scale as one organisation. This in turn will drive further value for both our customers and shareholders. Building on this year's outperformance where we have achieved a 20% underlying operating profit growth, I remain confident that we will deliver consistently on our five year annualised growth target of between 7% to 10%.

Our colleagues are the true driver of the business. Their commitment, endeavour and passion to deliver incredible travel experiences for our customers is proven in the exceptional results we have announced this financial year. I would like to thank each and every one of them for the dedication they have shown, and continue to show, each and every day. Thank you again.

Peter Long
Chief Executive

£3.7bn
Direct online sales across our Mainstream Sector

20%
Growth in underlying operating profit

69%
Percentage of Mainstream holidays sold that are unique

STRATEGIC REPORT

Why we do it: Market overview

The economic environment

The global economic recovery has maintained the slow pace of 2012, with GDP growth recorded at slightly below 3%. This can be attributed to weaker domestic demand and continued low growth in several key emerging market economies, combined with the ongoing recovery from recession in the main European countries.

While emerging and developing economies registered a 4.5% increase in GDP, advanced economies experienced a more modest increase of 1.2%. Our two largest source markets, the UK and Germany, saw growth of 1.4% and 0.5% respectively in 2013.
[Source: World Economic Outlook Update (7.10.13), IMF]

Despite this slow growth Germany and the UK have seen unemployment decreasing year-on-year. Germany has the second lowest unemployment rate in the Eurozone at 5.3% and the UK has seen unemployment levels fall to 7.7% in 2013. [Source: EuroStat (2013 Q2)]

The leisure travel market

2012 was a record year for International Tourism with global international arrivals surpassing the 1 billion mark for the first time. 2012 saw growth continue at 4%, slightly less than the 4.8% seen in 2011. Europe continues to account for over half of worldwide arrivals, reaching 534 million in 2012.

The travel market continues to be driven by high growth in online bookings and, while the uncertain economic environment has had an effect on consumer travel spending habits, demand for leisure travel remains strong.

Customer power has never been greater in the travel and tourism market. Developments in technology allow the customer to compare, contrast and review their choices as well as interact with suppliers and fellow customers worldwide. So whether customers are looking for unique holidays with bespoke services or simply want to combine a cheap flight with a hotel, they have a wealth of brands and booking options from which to choose.

Our business model (see page 15) aims to cater to the changing market trends to best serve these differing needs of our customers. The Tour Operator model focuses on providing unique holiday experiences, coupled with end-to-end service while the Online Accommodation model focuses on providing a range of hotels across the globe in line with customer demand. This diversity of offering means customers searching for traditional all-inclusive packages, multi-stop bespoke itineraries or worldwide city breaks can all book with us.

The political climate

As a global organisation, we feel the impact of government regulation in all of the markets in which we operate. Some of our activities, such as those undertaken by our airline, are heavily regulated. Many of our lawmakers, particularly in Europe, are becoming increasingly focused upon measures to protect customers.

Our political and regulatory affairs team seek to engage with legislators at an early stage in relation to all of those areas of regulation that might have a material impact upon the way we do business. Our focus is always to work with governments to bring forward legislation that is fit for purpose, properly balances the interests of industry and consumers and treats all industry players fairly.

The last 12 months have seen significant developments at the European level with the Commission proposing new legislation in the area of Air Passenger Rights and bringing forward proposals for reform of the Package Travel Directive. We have engaged consistently with the Commission as they have developed these proposals and will engage over the coming 12 months with the European Parliament and the Council of Ministers as they come to consider the suggested reforms in detail.

Aviation taxation also remains on the agenda as governments across the world look for ways to increase revenue. Our role is to remind them of the importance of the travel and tourism industry as a driver for growth.

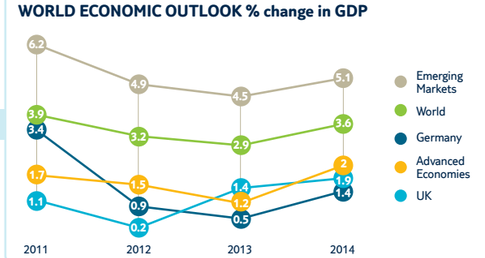
In the UK, the debate on airport capacity continues. We will maintain a full role in that debate in order to ensure that the specific requirements of leisure airlines and passengers are fully understood.

The sustainability challenge

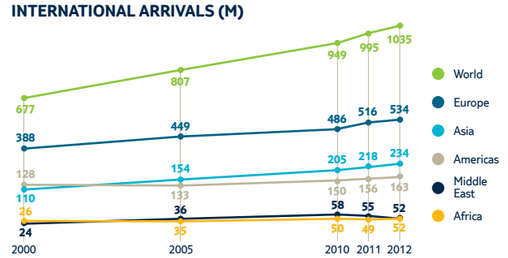
Travel and tourism accounts for 9% of global GDP and 6% of global exports. The industry will continue to be one of the world's fastest-growing sectors, with emerging economies in particular seen as engines of such growth (from 47% market share in 2012 and expected to reach 57% by 2030*). Tourism today is responsible for 1 in 11 jobs globally* but also for 5% of global carbon dioxide emissions**. From a sustainable development perspective this poses a challenge – the growth of an industry highly dependent on fossil fuels and biodiversity in a world of finite natural resources.

Our businesses have been facing up to this challenge for over a decade. For TUI Travel, responding to these issues means bringing sustainability centre stage, to build on the efficiency and resilience of our business and the services it provides. Our Sustainable Holidays Plan is a major step forward in our journey towards providing special travel experiences whilst minimising environmental impact, respecting the culture and people in destinations and bringing real economic benefit to local communities. See our Sustainable Development section on page 26 for more information.

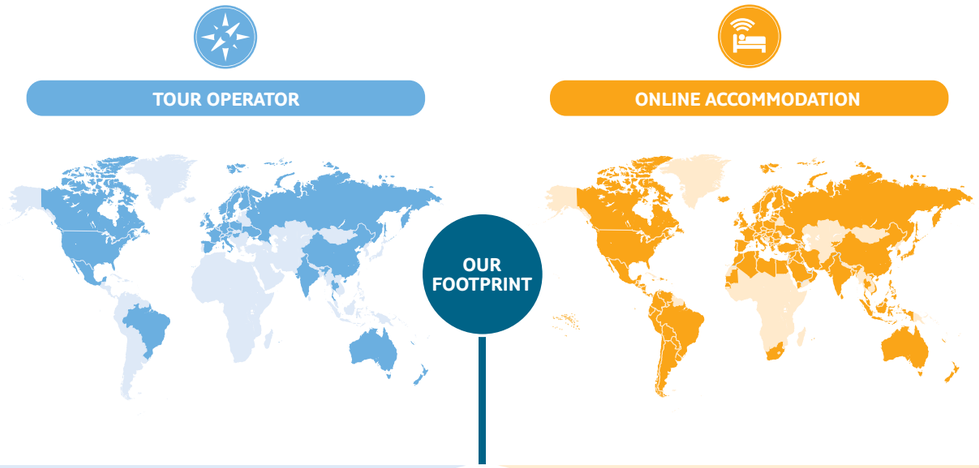
WORLD ECONOMIC OUTLOOK % change in GDP



INTERNATIONAL ARRIVALS (M)



Reference *United Nations World Tourism Organisation (UNWTO), 2013 ** United Nations Environment Programme (UNEP), 2011



MARKET SIZE & COVERAGE

Our core markets consist of the UK, Sweden, Germany, France, Belgium, the Netherlands, Austria, Poland, Switzerland & Canada. Between them they account for £498bn of global travel spend. Our four largest source markets of the UK & Ireland, Germany, France & Sweden make up over 70% of this spend*.

The broad range of product and niche and international customer markets that apply to Specialist & Activity businesses make it difficult to quantify spend on these holidays but their geographical reach and popularity continue to increase.

The total Online Accommodation market accounts for £87bn of global travel spend.

Within the Accommodation Wholesaler segment, TUI Travel's addressable market makes up about £17bn of this spend.

The Group also participates in the Accommodation OTA segment with focus in the UK, Asia-Pacific and Brazil, which accounts for £6.4bn of the total Accommodation OTA market.

MARKET GROWTH

Our core markets are projected to grow at a 3% CAGR over the next five years. The Mainstream holiday market remains resilient and continues to see growth in a tough economic environment.

The Accommodation Online Travel Agent (OTA) market is projected to grow at a CAGR of 9.6% over the next five years while the Accommodation Wholesaler market is expected to grow at a CAGR of 7.8%.

OUR POSITIONING

We continue to be the number one tour operator in Europe with either number one or two positions in each of our core markets.

In addition, we have market-leading positions in a number of specialist segments with a portfolio of unique products, unrivalled product knowledge and superb customer experience.

Our Accommodation Wholesaler business (Hotelbeds & Bedsonline) continues to lead the market in the B2B space.

With our Accommodation OTA business we are positioned strongly in the UK (LateRooms.com) & Asia-Pacific (AsiaRooms.com) and are building our presence in the Latin American market through MalaPronta, Brazil's fourth largest online accommodation OTA.

KEY TRENDS & FUTURE OUTLOOK

Customers are increasingly moving towards online channels to fulfil their travel needs and we expect this trend to continue into 2014 and beyond. We therefore remain committed to improving our online presence, increasing our participation in social media and moving towards an online-driven company culture.

Demand for unique holiday experiences continues to see strong growth and with a diverse range of experiences on offer, TUI Travel remains well placed.

Online Accommodation continues to be one of the fastest growing segments in the leisure travel industry. The recent growth is derived from the increase in online bookings coupled with strong demand from emerging markets. Online Accommodation, therefore, remains a key area for TUI Travel where we look to consolidate our leadership position within the Accommodation Wholesaler market and build on our international position in the Accommodation OTA segment.

[*Source: Euromonitor]

How we do it: Our structure

TUI Travel is organised and managed through three principal business Sectors: Mainstream, Accommodation & Destinations and Specialist & Activity. This diagram sets out each Sector, what it comprises and some highlights.

TUI TRAVEL PLC

UNDERLYING OPERATING PROFIT MIX BY SECTOR

- Mainstream Sector **82%**
- Accommodation & Destinations Sector **12%**
- Specialist & Activity Sector **6%**

SECTOR

MAINSTREAM

The Mainstream Sector makes up the largest part of our Group in terms of financial performance, scale, scope and number of employees. This Sector incorporates our familiar 'power' brands, such as our tour operators, with circa 1,800 retail stores across Europe and six airlines consisting of 138 aircraft throughout our key source markets. We report via these Source Markets with the largest four reporting separately – the UK & Ireland, Nordic, Germany and France. The Mainstream Sector uses the 'Tour Operator' business model.

See page 15

ACCOMMODATION & DESTINATIONS

The Accommodation & Destinations Sector (A&D) is a global provider of accommodation and inbound travel services. It competes in fast-growing areas of the travel industry through three business lines: Accommodation Wholesaler, Accommodation Online Travel Agent (OTA) and Inbound Services. Both Accommodation Wholesaler and OTA use the 'Online Accommodation' business model while Inbound Services straddles both business models ('Tour Operator' and 'Online Accommodation').

See page 15

SPECIALIST & ACTIVITY

The Specialist & Activity Sector (SAS) comprises more than 100 brands offering a wide range of unique travel experiences to customers across the globe, from ski and sailing holidays to adventure travel and sports tours. The Specialist & Activity Sector uses the 'Tour Operator' business model.

See page 15

SOURCE MARKETS

- UK & IRELAND
- NORDICS
- GERMANY
- FRANCE
- OTHER

BUSINESS LINES

- ACC WHOLESALER
- ACC OTA
- INBOUND SERVICES

KEY DESTINATIONS	CUSTOMER NUMBERS/ ROOMNIGHTS	KEY BRANDS
Canary Islands, Balearic Islands and Greece	**5.2m** passengers	Thomson, First Choice
Canary Islands, Greece and Turkey	**1.6m** passengers	Fritidsresor, Star Tour, Finnmatkat
Balearic Islands, Turkey and Canary Islands	**6.0m** passengers	TUI Deutschland, 1 2 Fly
Morocco, Tunisia and Turkey	**1.6m** passengers	Marmara, Nouvelles Frontieres
Turkey, Canary Islands and Spain	**5.1m** passengers	Arke, Jetair
USA, Spain and Thailand	**25.2m** roomnights	hotelbeds, bedsonline
UK, Brazil, Singapore and Malaysia		LateRooms.com, AsiaRooms, MalaPronta.com
Spain, Turkey and Egypt	**12.8m** passengers	worldcome, Intercruises, destination services, World of TUI
Italy, France and USA	**1.4m** customers	Crystal, Hayes & Jarvis

See more: 'How we do it: Strategic framework and business models', page 14

STRATEGIC REPORT

How we do it: Our strategic framework and business models

Our Strategic Framework underpins everything we do and comprises our Vision, Strategy, Strategic Drivers and the Values that are innate within our business culture. Our strategic drivers are ingrained in our operations with a clear focus on Content, Brands & Distribution, Technology, Growth & Scale and People. Our Business models are derived directly from our strategic drivers, that were refined last year when we set out our growth roadmap, and focus on the two key areas of long-term growth within the market – Tour Operator and Online Accommodation.

For more information please see the 'How we do it: Our five strategic drivers' section page 16

VISION

Making travel experiences special

STRATEGY

Through our global brand portfolio & travel expertise we are focused on delivering leisure travel experiences designed for our customers' ever changing needs

OUR VALUES

CUSTOMER DRIVEN

We respect our customers and never forget that they choose to spend their leisure time with us. We share a duty to maintain their loyalty and trust. We anticipate customer desires and everything we do is with them in mind. We believe there is no such thing as a mass market but a huge market of individuals.

PLAYING TO WIN

We are passionate about being the best and about winning with integrity. We seek the ideas and trends that change leisure-time markets for the better and move quickly to action them. We thrive on teamwork. We are not afraid of making brave decisions. We want to do something new every day and we love what we do.

RESPONSIBLE LEADERSHIP

We are committed to sustainable development and to making a positive impact on society. We know leadership has to be earned and we never take it for granted. We communicate openly and easily and help each other develop and grow. We celebrate local differences and actively seek to contribute to a better world.

VALUE DRIVEN

We share an infectious entrepreneurial streak and a clear focus on the need for profitability. We look for opportunities that have a commercial advantage for us and add value to our customers' experiences. We predict, translate and bring to market new leisure-time products based on their genuine appeal to customers.

STRATEGIC DRIVERS PAGE 12

STRATEGIC DRIVERS IN ACTION

TOUR OPERATOR		ONLINE ACCOMMODATION	
• Unique, inclusive holidays • Tailor-made holidays	**1 CONTENT**	• Range and diversity of hotel stock • Global destination and source market coverage	PAGE 16
• Market-leading brands • Trusted brands – safety & security • High levels of controlled distribution – focus on online	**2 BRANDS & DISTRIBUTION**	• Well known Accommodation Wholesaler and Accommodation OTA brands • Online	PAGE 18
• Flexible technological platforms to support growth	**3 TECHNOLOGY**	• Market-leading technology	PAGE 20
• Leveraging scale	**4 GROWTH & SCALE**	• Leveraging scale	PAGE 22
• Knowledge & expertise • Driving innovation	**5 PEOPLE**	• Knowledge & expertise • Driving innovation	PAGE 24

STRATEGIC REPORT

How we do it: Our five strategic drivers

Over the next few pages we explore what our five strategic drivers mean for our Tour Operator and Online Accommodation businesses. We will outline why they are important to us, how we adhere to them operationally to ensure profitable performance, how we know they are working, and finally a selection of highlights from this past year. There are distinct parallels across some drivers, uniting the two business models, while the focus can be considerably different for others.

1. Content

see adjacent

2. Brands & Distribution

see page 18

3. Technology

see page 20

4. Growth & Scale

see page 22

5. People

see page 24

1. Content

CONTENT CASE STUDY

Strong unique products: Sensatori & Sensimar

Sensatori and Sensimar are two examples of our unique holiday offering, operating out of the UK and German markets respectively to a variety of destinations worldwide. Both concepts provide affordable luxury to the customer. Demand for these unique holidays continues (see KPIs section on page 38) and this year a new hotel opened for both Sensimar in Andalucía and Sensatori in Turkey. 2014 will see Sensatori open in Jamaica, and Sensimar open its first resort in Mexico.

We continue to develop these unique concepts across all our source markets which helps differentiate us from our competitors.

Unique content forms the backbone of our Tour Operator strategy

Why?

- Unique content is tailored to the differing needs of customers, ensuring that we offer the right product to the right customer.
- Provides value-added services and features which command a margin premium over commodity products.
- Books early when compared to commodity products enabling us to manage our capacity and yield more effectively.
- Leads to higher customer satisfaction and an increase in repeat bookings.
- Adds value to our brand – makes us identifiable and clarifies our brand proposition as an end-to-end travel provider.
- Finally, as all of our unique content is exclusive to TUI Travel, it also helps create effective barriers to entry for our competition.

What are we doing about it?

In Mainstream:

- Continuously reviewing our existing concept portfolio, adapting where appropriate for different Source Markets.
- Developing new hotel concepts which are exclusive to our brands and in line with customer demand.
- Looking at concepts from a holistic pan-European perspective, which would be suitable for Mainstream as a whole.

In Specialist:

- Maintaining our focus on providing unique experiences through our range of brands to cater to a wide range of customer needs.
- In FY13 Hayes & Jarvis launched a tailor-made offering, providing seamless service to customers wanting bespoke itineraries to places such as India, South Africa and Latin America.

How do we know this is working?

- Demand for unique holidays remains strong; in FY13 unique holiday sales increased to 69% (FY12: 65%) of total sales across Mainstream. (See KPIs)
- Our unique hotels continue to register the highest customer satisfaction and retention scores across the whole portfolio.

2013 Highlights

- In the UK the Couples proposition continues to grow with an additional 12 properties added to the collection in FY13. This brings the total number of units to 38 and underscores the confidence we have in our unique products.
- SuneoClub – a pan mainstream all-inclusive 3* concept went on sale at the end of July for Summer 2014. The concept currently boasts nine hotels across Greece, Spain and Turkey and is a prime example of TUI Travel source markets working together.
- Our Specialist brands also saw some exciting developments. Sovereign launched the 'By Sovereign' concept whereby they forged partnerships with key hoteliers to place in-hotel sales teams with specific expertise as well as rich and visible online content, driving considerable growth.

Our content range and diversity is attractive to our customers

Why?

- An increasing propensity to travel due to global economic recovery creates an ever-expanding market place of customers looking for a competitive range of accommodation product, in terms of both geography and price.
- Travellers are increasingly exploring opportunities to research and book accommodation product online and thus they benefit from our large volume of well-presented content and price-competitiveness.

What are we doing about it?

- Ensuring that we have a wide variety of product, in terms of quality, destination and budget. It is also important that our content is translated well digitally, that it is rich, inspiring and relevant.
- The emerging markets are increasingly important to our online accommodation businesses, both as a source market and as a destination. We have a clear strategy for targeting these markets, with particular focus in our five-year plan on further expansion in the Middle East, Asia Pacific, Americas and Africa.

How do we know this is working?

- Over the past year Accommodation Wholesaler (our B2B business) TTV has grown in the key regions of Middle East, Asia Pacific, Americas and Europe (excluding UK, Spain and Portugal) by over 30%.
- The improvement in our Accommodation OTA hotel content is showing early positive signs, especially with the use of new 'unique' images on Malapronta.com, which has led to a positive impact in conversion.

2013 Highlights

- Our Accommodation Wholesaler business has seen a 16% increase in hotel inventory in FY13.
- The Brazilian Accommodation OTA, MalaPronta, has seen a 110% increase in its hotel portfolio in the past year across the main domestic destinations of Sao Paulo, Rio de Janeiro and Curitiba.

The Brazilian Accommodation OTA MalaPronta has seen a 110% increase in its hotel portfolio in the past year

- **STRATEGIC REPORT** 19
- BUSINESS AND FINANCIAL REVIEW
- DIRECTORS' REPORT
- FINANCIAL STATEMENTS
- SHAREHOLDER INFORMATION

2. Brands & Distribution

BRANDS & DISTRIBUTION CASE STUDY

Offering more tailored products

Across the Nordics, there are a total of 10 next-generation stores that are proving that a modern high-street customer experience can complement an online-sales focus. We know that this combined strategy is working as a result of the exceptional performance of the Nordic countries – 11% increase in underlying operating profit for FY13.

Next-generation stores exist to inspire customers, giving them a modern pre-holiday experience in which staff play a more advisory role, rather than the traditional focus on sales. In this way, colleagues work with customers to understand their needs, before offering advice as to locations that fit their criteria. Stores feature modern technology, world maps and virtual brochures on large screens around the shop, for customers to peruse at will.

Simultaneous to this, online distribution is at an all-time high in the Nordics, up two percentage points from 2012 to reach 67% in 2013 – demonstrating that our next-generation stores work with, rather than competing against, online points of contact.

For more information about segmental performance, please see page 59

thomson.co.uk awarded the No. 1 'Socially Devoted' business in the UK award by Social Bakers, for the level of social customer service

We remain committed to our focus on direct distribution and being online driven

Why?

- Increasing numbers of European travellers are researching and booking their travel via digital channels; we need to ensure we keep in step with our consumers' evolving behaviour.
- One of the reasons cited for not booking online is the perceived lack of personal service. We are working on personalising our interactions with customers so we can learn more about what they are looking for, what they have booked in the past and what interests they have. This in turn informs how we develop and tailor our product and service and how we can market to and retain these customers more effectively.
- Having strong, recognisable brands plays a key role in the online world, helping to increase direct traffic to our websites which generally tends to have a higher conversion rate.
- Focusing our distribution on direct channels reduces our reliance on third-party agents and allows us to form a direct relationship with the customer. This also drives down our distribution costs.
- Direct distribution allows us to have greater control over our brands and how they are marketed and sold. The clearer we communicate about our brands and what they offer, the more likely we are to develop loyal customers who will become ambassadors, helping us acquire new customers.

What are we doing about it?

- TUI Travel is focused on being an 'online-driven' business providing customers with an easy and inspiring online experience. 'Online-driven' refers to the entire customer journey: inspiration, planning, booking, pre-departure, the holiday experience and returning home and sharing.
- 2013 saw the creation of the Mainstream Distribution & Online team providing support to all source markets and sharing best practice on digital matters, retail operations, CRM and ancillaries. This has led to the standardisation of several processes and the proliferation of best practice across markets with immediate financial benefit.
- A large portion of our market continues to value the face-to-face service of a travel agency. We are working on transforming the traditional agency into the next-generation retail concept store to combine the expertise of our people with the latest technology as we move into a true multi-channel world.
- Our Specialist businesses leverage a strong brand portfolio offering everything from adventure and sailing holidays to private jet tours. We are investing in our online platforms to enhance booking and search functionality and provide our customers with inspirational content to showcase our products.

How do we know this is working?

- Online sales across the Mainstream Sector are steadily increasing. In FY13 online bookings made up 35% (FY12: 33%) of our holiday sales and we have clear strategic plans and targets in place to drive online sales further in all source markets (see KPIs).
- All our Mainstream businesses have their core websites mobile enabled to take advantage of the growing proportion of their online traffic coming through tablets and smartphones.

2013 Highlights

- TUI Nordic has opened new retail concept stores across its four markets which act as a branding and marketing channel supporting online sales as well as being a sales channel in their own right.
- The UK opened the first retail concept store in the Bluewater shopping centre. The shop includes next-generation design principles featuring user-generated content, digital billboards and interactive features.
- Our Mainstream businesses have over 2.5m Facebook fans with an industry leading rate of engagement. Thomson.co.uk was awarded the No. 1 'Socially Devoted' business in the UK by Social Bakers, for the level of social customer service.
- Within our Specialist portfolio, our ski brand Crystal is increasing its direct distribution by reducing reliance on third-party agencies, and introducing price parity across online and offline channels.

Distribution is key to the successful performance of our Online Accommodation businesses

Why?

- As an 'online-only' business, it is critical we provide our customers with an effective and easy-to-use search and booking experience. In this arena, having excellent digital presentation and user experience is as important as good content. This means that the details – website response time, usability of the interface, etc., – are essential. Furthermore, consumers are increasingly expecting a seamless experience across all devices – so the mobile and tablet experience should match the traditional desktop experience.
- Maintaining our reputation is important to our Accommodation Wholesaler brands as the business is built on retaining customers who are loyal because of the service and product associated with our brand name.
- Growing our customer base in the competitive OTA market requires a combination of good brand awareness and strong online visibility in organic and paid search, together with a clear eCRM strategy to drive customer loyalty and repeat bookings.

What are we doing about it?

- Our Accommodation Wholesaler business is currently building a large client base to grow intra-regional and domestic penetration mainly in the Middle East, Asia Pacific, Americas and Africa.
- In Accommodation OTA our focus is to build on our brand positioning of LateRooms.com in the UK and expand in the emerging markets through AsiaRooms.com and in Brazil with the acquisition of MalaPronta.com.

How do we know this is working?

- Accommodation Wholesaler saw a 50% growth in the number of XML links between their inventory and travel agencies' booking systems, with half of these being in the Middle East and Asia Pacific.
- LateRooms.com was the most recognised Accommodation OTA brand in the UK during FY13 with 63% brand awareness.

2013 Highlights

- Our Accommodation Wholesaler travel agency distribution channel, Bedsonline, has seen an year-on-year increase of 60% in travel agent bookings.
- We have launched the first stage of our eCRM personalisation strategy in our Accommodation OTA businesses in order to grow new and repeat bookings.

STRATEGIC REPORT 21
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

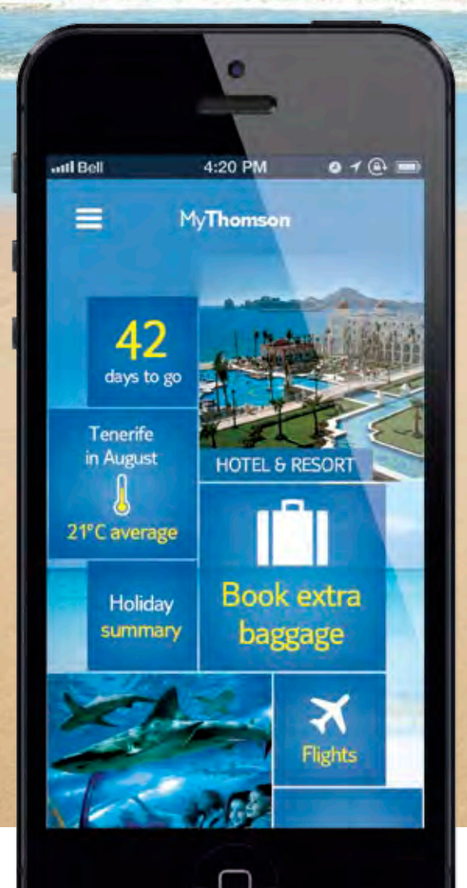
3. Technology

TECHNOLOGY CASE STUDY

Providing seamless interaction for our customers

In July, we launched the award-winning TUI Digital Assistant in the form of the MyThomson mobile app, which allows customers to access information about and plan their holidays from the moment they book, through until their departure and even whilst on holiday. The app includes everything from flight information and luggage allowance details, to maps to help customers plan the best route to the airport. The personalised holiday countdown can also be shared via social networks such as Facebook and Twitter.

The MyThomson iPhone app was the most popular free travel app shortly after launch and had over 180,000 downloads in its first few months following release. Post year end we have rolled out the TUI Digital Assistant in the German source market with the launch of the 'Meine TUI' mobile app and will continue this roll out to source markets across the Group. One of the main advantages of this technology is that we have one development cost that benefits all our markets.



Technology underpins the distribution and content pillars of our strategy

Why?

- Fast-changing customer demands require us to have a modern and flexible technological platform.
- It enables us to best showcase our product and communicate with and sell to our customers effectively.
- By implementing robust back-end finance and reservation systems we can support business operations and also provide reliable and actionable management information.
- Having an efficient technology infrastructure allows us to drive efficiencies and therefore provides further value to our customers.

What are we doing about it?

- Within Mainstream, we are in the process of upgrading our web front-end reservation and finance systems across all source markets. These technology upgrades will provide our websites with new search functionalities, improved personalisation and richer content as well as enhanced mobile capability as our customers increasingly research and book their holidays on mobile devices.
- Our Specialist businesses have made good progress in consolidating their finance and reservation systems to leverage our scale across multiple brands and continue on their journey of standardisation, while balancing the varied requirements of the different holiday experiences they offer.

How do we know this is working?

- The Thomson & First Choice websites have recently gone through a major front-end overhaul. This includes incorporating Broad Search (flexible date, departure and destination options), self-validating search and filtering into the holiday search process. This has already resulted in a vastly improved 'look-to-book' ratio.

2013 Highlights

- In the spring we launched the MyThomson Digital Assistant app in the UK – with plans to launch in other markets soon. This provides a one-stop shop for booked customers to purchase excursions, create a holiday checklist and review resort and destination information. Upon launch it was ranked as the number one free travel app in the Apple Store and downloads to date stand at over 180,000.

Investment in Technology is essential for our online based accommodation businesses

Why?

- One of the success factors for Accommodation OTA is the user experience on the website. In a competitive market it is what keeps a customer on the website and converts them from looking to booking.
- To ensure smooth back and front office operations we need to have efficient finance and reservation systems. This also provides us with valuable management information about our customers' preferences.
- Our customers range in type from businesses to individuals, and are based all over the world. We need to ensure we have the latest technology platforms, that can adapt to the evolving needs of this broad customer base.

What are we doing about it?

- Both Accommodation Wholesaler and Accommodation OTA businesses are supported by efficient IT platforms.
- Accommodation Wholesaler operational systems are being upgraded in order to be able to continue improving service delivery to its global customers.
- In our Accommodation OTA business we are continuing to invest in a new platform to support our growth strategy.

How do we know this is working?

- Accommodation Wholesaler's in-house platform is one of the most robust, flexible and user-friendly in the industry, allowing for quick connectivity with hotel suppliers as well as our customer base of travel agencies, tour operators and OTAs.
- Accommodation OTA's platform with the new onsite search and improved customer experience is providing more relevant search results and delivering site speed improvements.

2013 Highlights

- Accommodation Wholesaler's online platform recorded on average 1.5bn searches per month in FY13. Room nights grew by 16% (see KPIs on page 38).
- In FY13 mobile-optimised websites were delivered for LateRooms, AsiaRooms and MalaPronta.

In FY13 Accommodation Wholesaler's online platform recorded on average 1.5bn searches per month

4. Growth & Scale

GROWTH & SCALE CASE STUDY

Consolidating our market-leading position

The Greek island of Kos is a prime example of how the Mainstream Sector is utilising its potential for growth, with three of our largest source markets reporting substantial successes on the island.

Kos has become one of TUI Netherlands' most successful destinations, reporting growth of 13% year-on-year. The market share of 35% of overall Dutch passengers to the island can mainly be attributed to differentiated products – of which Puravida and KidsClubs are the most successful, whilst its share of exclusive accommodation in Kos has risen to 33%.

Last summer, TUI Nordic re-launched Kos as a destination through an extensive line-up of differentiated concepts. The brand was the market leader for trips to Kos in Summer 2013, and received consistently high customer satisfaction.

Over the past three years, our UK & Ireland Mainstream programme to Kos has grown by 48%. This, coupled with the success of TUI Nordic and Netherlands, highlights how we are successfully expanding our business through a well-executed strategy.

Our scale and potential for growth make us unique

Why?

- No other leisure travel business operates in as many markets and has as many customers as we do. The travel market nonetheless remains highly dynamic and competitive and it is therefore essential to seize new growth opportunities and maintain our market-leading positions.
- Leveraging our scale and driving further synergies and cost efficiencies also enables us to provide added value to customers.

What are we doing about it?

- 2013 saw us approach scale in a different way with the creation of the Mainstream Board.
- This gave focus to our efforts to leverage our scale across all source markets to consolidate our market-leading position and grow the number of customers travelling with us.
- Growth in new markets remains an important area of focus for TUI Travel. Our Russian tour operator business has given us a position in this market and we continue to seek opportunities in markets like Brazil and China.
- In our Specialist & Activity Sector we continue to review opportunities to leverage our successful brands in new and existing source markets.

How do we know this is working?

- In 2013 we successfully delivered on our profit growth roadmap of 7% to 10% as set out at the beginning of the year. We are confident in continuing this performance.

2013 Highlights

- As a result of the formation of the Mainstream Board, it was decided to consolidate our Mainstream purchasing and digital teams as well as combining the efforts of our destination services team in resort. This has allowed us to maximise economies of scale and will continue to drive further efficiencies (see 'Our People' on page 34).
- In May we further enhanced our offer with the delivery of the Boeing 787 Dreamliner. This has meant we have been able to extend our long-haul programme and vastly improve our customers' flying experience.
- Following a shareholder meeting in July, a proposal was accepted to purchase 60 Boeing 737 MAX aircraft showing the confidence and faith in the Company's ability to grow.
- Our Specialist & Activity Sector underwent a restructure in late 2012 which led to the creation of two management portfolios: grouping Marine, Specialist Holidays Group and Ski together and uniting Education, North American Specialist and Sport. The aim was to facilitate better sharing of expertise and knowledge across divisions.

Scale is a critical success factor for any online accommodation business

Why?

- In a price-driven, lower-margin business, it is imperative for us to achieve high volumes and leverage common platforms and economies of scale in order to gain competitive advantage.

What are we doing about it?

- TUI Travel is a firm market leader in the Accommodation Wholesaler market with operations in over 100 countries. We are continuing to follow our strategy of consolidating our market-leading position by expanding in existing destinations whilst focusing on our development in both new source markets, as well as new destinations, with particular focus on Asia, Latin America and Africa.
- Within the Accommodation OTA division we cover three attractive markets:
  - > LateRooms has maintained its position as number 2 in the accommodation-only OTA space in the UK. We aim to continue delivering growth by developing new distribution channels and new customer segments in this market.
  - > AsiaRooms is now an established and growing brand in the Asia-Pacific region.
  - > Last year we acquired MalaPronta.com, Brazil's fourth largest accommodation-only OTA, which helps TUI Travel establish a presence in this fast-growing and lucrative market.

How do we know this is working?

- Our Accommodation Wholesaler business has experienced +30% year-on-year TTV growth in emerging source markets (Americas and Asia).

2013 Highlights

- In Accommodation Wholesaler global efficiencies were achieved by managing operations though centralised global and regional platforms. A good example of this is moving from 24 finance centres to three global shared service centres.
- Our Accommodation OTA business is continuously working on device-optimised sites and apps to meet growing demand.

In 2013 we successfully delivered on our profit growth roadmap of 7–10% as set out at the beginning of the year

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

5. People

PEOPLE CASE STUDY

The Big Picture

The TUI Travel Big Picture was introduced in November 2012 to help bring to life our Group strategy, vision and strong growth plans in a dynamic and engaging way.

Supporting our open and honest culture, the Big Picture is designed to help drive colleague understanding, creating a dialogue about the path that we're on and the role each of us has to play in the future success of our business, working together to achieve our goals.

Using an image to convey strategy and direction helps to make it more clear, consistent and memorable. In the UK & Ireland, more than half of our people could identify all three of our business goals unprompted following a conversation about the Big Picture. Before this, only 20% could mention one of the business goals.

For more information about the Big Picture, please see the 'Our people' section on page 34

People are a key differentiator at TUI Travel

Why?

- At all levels of our business the experience, knowledge and customer focus of our employees is what helps us hold our market-leading position.
- The holiday experience itself, and the resulting satisfaction and loyalty of our customers, depends on their face-to-face interaction with our employees and the service they receive.

What are we doing about it?

- Investing in the training and development of our people to ensure that they have the right skills and expertise to provide us with a real competitive advantage.
- Communicating with colleagues regularly, honestly and openly, whether it be informal blog posts from the Board, or organised 'Town Hall' meetings providing updates on the strategy and five-year plans of the business.
- Enhancing our existing development programmes for senior managers and executives, as well as adding a new programme for junior managers. All three programmes are modular and are designed to educate and share ideas on trends as well as share knowledge and increase visibility across the Group to encourage mobility and synergy.
- Our International Graduate Leadership Programme continues to attract high calibre global-minded individuals interested in and suited to careers in our dynamic, fast-paced industry (see 'Our People' on page 34).
- Half-yearly talent reviews ensure that we monitor the talent and capabilities within our organisation and have clear succession plans in place for business critical roles.
- The Leadership & Development team has been centralised to provide a more holistic view of the business and allow for talent recognition and development support across all Sectors and functions.

How do we know this is working?

- We use colleague engagement and employee Net Promoter Score (NPS) as a barometer of employee sentiment. Current results show TUI Travel scoring well on both counts and we have targets in place, supported by cohesive plans, to exceed current performance.

2013 Highlights

- We added a new development programme called Perspectives aimed at talent in the early stages of their career (see 'Our People' on page 34).
- Our new internal careers portal launched in July bringing together TUI Travel's global vacancies for the first time, increasing the visibility of opportunities available across our Group.

People are the key driver of any online business where agility, speed and innovation are essential elements of success

Why?

- Attracting and retaining talent is increasingly gaining priority in a market characterised by rapid changes and high competition.

What are we doing about it?

- Building a strong brand proposition to acquire and keep the best online talent.
- Identifying knowledge gaps within the organisation and providing colleagues with the necessary tools and skills to succeed in the online world.
- Developing an online-driven culture where employees are encouraged to keep abreast of the latest trends whilst providing an environment which fosters new ideas and innovation.
- The mobile and evolving nature of our business requires we look beyond European boundaries when it comes to sourcing talent. TUI Travel continues to tap into the vast talent pool of markets like Brazil and South East Asia to fuel our global growth ambitions.

How do we know this is working?

- Similar to our Tour Operator businesses we measure levels of colleague engagement and NPS to gauge employee sentiment on matters such as senior leadership direction, career development and day-to-day job satisfaction, and ensure that we score highly.

2013 Highlights

- High number of participants from the Sector in Group management development programmes, such as Perspectives and Horizons.

In FY13 we enhanced our collection of development programmes, adding Perspectives aimed at junior management

How we do it: Sustainable development

Travel and tourism is one of the world's largest industries. The growth and employment it creates makes it of critical importance to the global economy. However, from a sustainable development perspective, the industry's high dependency on fossil fuel, natural resources and biodiversity poses a challenge, one which our businesses have been addressing for over a decade. Our vision is to make travel experiences special whilst minimising environmental impact, respecting culture and people and bringing economic benefits to communities.

Our commitment to Responsible Leadership is widely acknowledged. In FY13 we were pleased that our performance was recognised as follows:

- For the sixth consecutive year, TUI Travel was featured in CDP's Climate Disclosure Leadership Index (CDLI) and was ranked in the top 10% of the FTSE 350 for our approach to carbon disclosure and governance. TUI Travel was the only Travel & Leisure company to feature in the 2013 CDLI and the only company to feature for the sixth year running. *www.cdproject.net*
- TUI Travel was recognised by Carbon Clear for its approach to carbon reporting, ranking the Company joint sixth in the FTSE 100 in its annual survey. *www.carbon-clear.com/uk*
- We continue to be listed on the FTSE4Good Index in recognition of meeting strict social, environmental and governance standards.
- For the third consecutive year TUI Travel was featured in the RobecoSAM Sustainability Yearbook which highlights the best performing 15% of companies who submit data to the Dow Jones Sustainability Index (the largest 2,500 companies globally). *www.sam-group.com/yearbook*

For further details on awards and our latest Sustainable Holidays Report, see www.tuitravelplc.com/sustainability

Governance

Commitment at the most senior level is vital for us to achieve our goal of leading the leisure travel sector in sustainable development. Johan Lundgren, Deputy Chief Executive, is the TUI Travel PLC Board sponsor for sustainable development and Jacky Simmonds, Group HR Director, is responsible for reporting on sustainable development to the Group Management Board. Jane Ashton is the Director of Group Sustainable Development. The Group Management Board acts as the Steering Committee, setting the strategic direction and long-term objectives for sustainable development across the Group.

The role of Group Sustainable Development is to drive change towards a more sustainable business and to forge leadership in our industry sector. The team works closely with other parts of the Group and a network of sustainable development coordinators in each key source market/Sector who have a remit to develop and implement sustainable development strategy, supported by a network of champions.

Risk management

Policy and mitigation for Group-wide risks relating to sustainability are facilitated by Group Risk Management and Sustainable Development, with responsibility for managing such risks also shared by the businesses themselves. Increasing legislative and societal demands on an organisation like ours require that we act responsibly and identify and manage our risks effectively.

Key areas of risk identified are:

- Legislative and societal demands in relation to size and management of TUI Travel PLC's carbon footprint
- Actions of colleagues need to uphold TUI Travel's sustainable development policy
- Actions of suppliers need to uphold TUI Travel's environmental and social supplier standards
- To understand better the socio-economic impacts of tourism
- Concern over damage to and quality of destinations due to ecosystem degradation and climate change
- Growing expectation among our customers regarding sustainability issues

For further information about sustainability risks and how we manage them see our latest Sustainable Holidays Report. We have also identified sustainability risks within the Principal Risks section, *see page* 42

FY13 highlights...

Our Sustainable Holidays Plan 2012-14

Our three-year Sustainable Holidays Plan was launched in 2012 and marks our journey towards a more sustainable future. It reflects significant integration of environmental and social principles into the way we do business – performance measures, processes and the customer proposition. It sets out four ambitious goals underpinned by 20 commitments in our priority areas – taking care in destinations, reducing carbon emissions and engaging our colleagues and customers in sustainability. Our Sustainable Holidays Plan aligns with our corporate strategy.

For further details visit our latest Sustainable Holidays Report www.tuitravelplc.com/sustainability

Our Sustainable Holidays Report 2013 is due out in Spring 2014.

STRATEGIC REPORT HOW WE DO IT

Sustainable development

Destinations

GOAL BY 2015…

We will deliver 10 million 'greener and fairer' holidays

We will measure this by the number of customers we take to hotels with credible sustainability certifications from 2012 to 2014, e.g. sustainability certifications working with the Global Sustainable Tourism Council such as Travelife, and international environmental management standards such as ISO 14001 and EMAS.

Travel and tourism accounts for 9% of the world's GDP and 6% of global exports (UNWTO, 2013). Tourism also accounts for 1 in 11 jobs globally (UNWTO, 2013) and is the main source of foreign exchange in one-third of developing countries (UNEP, 2011). The leisure travel industry can have both positive and negative impacts on communities and the natural environment – the challenge is how to manage these impacts for the greatest good.

Our business case

We want our holidays to benefit local livelihoods and protect the environment, and in doing so maintain the quality, viability and desirability of our products for years to come. We're working with stakeholders in destinations around the world to make this a reality.

TUI Travel has a global supply chain, and our suppliers are the driving force for improving our sustainability performance in our destinations. Each of them plays a significant role in managing our impacts on the local community, economy and environment.

We are committed to influencing more hotels to achieve credible sustainability certifications, so as to be assured that our suppliers are making continual sustainability improvements. This not only improves our sustainability performance, but also benefits our suppliers.

Depending on the region, energy costs account for between 5% and 15% of a hotel's turnover (blueContec, 2012), so reducing energy use can have a significant impact on the bottom line. We're already helping many of our hotels by training them on eco-efficiencies, which ultimately delivers better value for money for our customers.

Engaging in sustainability can help hotels differentiate their product, meet growing customer demand, and protect their destinations. There is also evidence that our most sustainably-managed hotels are those which are delivering higher quality and customer satisfaction.

We are involved in hundreds of projects that support communities and reduce environmental impacts. Where we can, we focus on the destinations where we send the most customers and where we believe we can make the greatest difference. In FY13 this included Brazil, Cape Verde, Cyprus, Dominican Republic, Egypt, Greece, Kenya, Mexico, Spain, Thailand, Tunisia and Turkey.

FY13 Highlights

- We featured over 1,200 hotels with sustainability certifications.
- We took 3.8 million customers to hotels with credible sustainability certifications.
- We organised many sustainability supplier workshops, for example in the Costa del Sol, Italy, Kos, Madeira, Mallorca and Rhodes.
- TUI UK & Ireland worked with blueContec and Responsible Hospitality Partnership to provide their differentiated hotels with dedicated environmental consultancy. Of the circa 40 hotels who participated, reductions in energy and water consumption have already generated cost savings of nearly Euros 2 million to date.
- TUI Nederland was the first major travel company to be certified to the new Travelife standard for tour operators.
- We were actively involved in the development of the industry's first ever Global Welfare Guidance for Animals in Tourism, produced by ABTA – The Travel Association, and launched in June 2013. TUI Travel provided support for the guidelines at a launch event at the EU Parliament in Brussels and we continue to audit our suppliers against animal welfare standards.
- TUI Deutschland has partnered with GIZ to support a major project in Tunisia. In year two of the project, seminars took place with hotel managers on sustainability and equal opportunities for women, hotel staff were trained on service quality and customer satisfaction and linkages created between local women artisans and hotels.
- Jetair and Jetairfly received the sustainable tourism award at the Travel Magazine Travel Awards in 2012.
- In November 2012, TUI Travel formed a three-year partnership with the German Government Development agency GIZ, The Code and other industry partners to focus on child protection in Thailand.
- Hotelbeds and Blue Travel Partner Services officially partnered with UNICEF in the Dominican Republic to protect children from exploitation.
- TUI Nederland won the 'Overall winner' award and the 'Best for child protection' award at the 2013 World Responsible Tourism Awards. This achievement came as a result of their long-term commitment to the cause: in implementing colleague training, raising awareness amongst travellers and a project in Brazil which helps vulnerable adolescents find a job in the tourism industry. Intrepid Travel was also 'Highly Commended' for its work on child protection over the last 20 years.
- We aim to influence the sustainable management of key destinations. We have been working with the Travel Foundation in Cyprus, which includes the integration of minimum sustainability standards into the island's national hotel quality rating system, and in Cape Verde, where we have helped to set up a destination council to tackle sustainability issues using a multi-stakeholder approach.

We are conscious of the pressures that tourism can place on local populations and resources and therefore work collaboratively with communities, governments and a range of other partners to support the sustainable management of destinations. Examples include: ABTA – The Travel Association, the Born Free Foundation, Deutscher ReiseVerband, Dutch Association of Travel Agents & Tour Operators, GIZ, Global Sustainable Tourism Council, The Tour Operators Initiative, and The Travel Foundation.

Human rights

TUI Travel PLC acknowledges the UN Guiding Principles on Business and Human Rights and has many policies and initiatives in place to identify, prevent, mitigate and account for how we are addressing key human rights issues. We continue to work with stakeholders to understand better and respond to these issues.

We have a Group employee Code of Conduct which covers a wide range of human rights including discrimination and working conditions and commits TUI Travel to upholding the principles of the UN Global Compact. The Company also has HR policies (see page 34), Health & Safety policies (see page 52), an Anti-Bribery & Corruption Policy (see page 71) and a Whistle-blowing Policy (see page 71) addressing key human rights. TUI Travel's Mainstream businesses are signed up to the international Child Protection Code and support several child protection projects.

In 2013, TUI Travel launched a new Supplier Code of Conduct for all suppliers including hoteliers. The code sets out the minimum standards we expect from suppliers and their employees, contractors, agents and subsidiaries when working on our behalf. The code covers human rights and labour laws, support for local communities, environmental impacts, and bribery and corruption.

We are actively encouraging our hotel suppliers to implement credible sustainability certifications. The majority of businesses across the Group promote Travelife, which incorporates the principles of the Ethical Trading Initiative Base Code. Travelife recognises hotels which care for the environment, their employees and the local community. We have been working with Travelife to strengthen criteria around human rights and these will be launched in 2014. We are also working with ABTA and industry peers to address key concerns on human rights issues collectively.

To read our policies, visit: www.tuitravelplc.com

1,200

We featured over 1,200 hotels which had sustainability certifications

370

Over 370 hoteliers and other stakeholders attended our supplier sustainability workshops in FY13

A DECADE OF COLLABORATION

TUI Travel has been working with the Travel Foundation, a sustainable tourism charity, since it launched in 2003. During this decade of partnership, the Travel Foundation has supported us on our sustainability journey, providing a wide range of resources and expertise and collaborating with the business on strategic projects that have helped it address the sustainability issues facing the travel and tourism sector. We are the largest industry supporter and donor to The Travel Foundation, which over the last 10 years has trained more than 10,000 local people in skills to boost tourism, reduce environmental impacts and improve customer experience – and also trained 800 hotels to reduce energy, water and waste. We have raised over £4 million since 2003 and we won the Contribution to the Community Award at the 2013 TTG Travel Awards for our outstanding work with the Travel Foundation.

www.thetravelfoundation.org.uk

For further details visit our latest Sustainable Development Report www.tuitravelplc.com/sustainability

STRATEGIC REPORT HOW WE DO IT

Sustainable development

Carbon

GOAL BY 2015…

We will operate Europe's most fuel-efficient airlines and save more than 20,000 tonnes of carbon from our ground operations

We will measure this through TUI Travel airlines' average carbon emissions per revenue passenger kilometre (CO_2/RPK) and CO_2 saved from our major premises, retail outlets, brochure paper production, differentiated hotels and fleets of vehicles (against FY11 baseline).

Travel and tourism are responsible for around 5% of global CO_2 emissions (UNEP, 2011). As a leading leisure travel company, our challenge is to prepare for a low carbon future by further reducing our environmental impacts and helping our suppliers do the same. Carbon management is a priority for TUI Travel: our airlines' carbon efficiency is one of the Company's key performance indicators (see page 38). Our carbon management strategy covers aviation, hotels, major premises, retail shops, water transport and ground transport emissions.

Our business case

It makes sense, both from a business and from an environmental perspective, for us to embed carbon management into our key business practices.

Predictable weather, comfort and an attractive local environment are critical factors in the quality of the holiday experiences we provide for our customers. Climate change could negatively impact on all three of these factors, and is therefore a business risk for TUI Travel (see our 2013 CDP submission for further details).

We have also identified climate change-related regulation as a material issue for the Company (see page 51). We monitor and are prepared for regulatory proposals on climate change – such as the UK Government's mandatory greenhouse gas reporting requirements (see below).

Our focus on energy and fuel efficiency allows us to make significant cost savings. Across TUI Travel, improved management of energy, natural resources and fuel across our operations has saved £16 million in FY12*.

We aim to operate Europe's most fuel-efficient airlines and to continue to invest in cutting edge aviation technology. In FY13, TUI Travel airlines' total carbon emissions were 5,101,532 tonnes. Emissions from aviation make up approximately 90% of our Company's carbon footprint. Our target is to reduce TUI Travel airlines per passenger carbon emissions by 9% by 2015 (baseline 2008). In FY13, we met this target, reducing our average per passenger carbon emissions by 9.3% against our baseline.

We have developed our position on aviation and climate change in partnership with key stakeholders, whose insight and guidance have helped us to identify how we can play a leading role in campaigning for smarter carbon legislation.

Read our 'Campaigning for smarter carbon legislation' article here: www.tuitravelplc.com/sustainability and watch our 'Transparency in carbon reporting' video.

FY13 Highlights

- CO_2 per revenue passenger kilometre (RPK) across TUI Travel airlines of 70.7g** vs 73.0g in FY12 (an improvement of 3.2%) – making us one of the most efficient airlines in Europe and beyond.
- TUIfly was ranked the most climate-efficient charter airline worldwide for the second year in a row and most climate-efficient airline in the world with more than one million passengers in the 2013 atmosfair Airline Index. Thomson Airways was ranked second most climate-efficient airline for short haul flights.
- TUIfly achieved ISO 14001 certification (an international environmental management standard).
- 94% of our aircraft are now fitted with fuel-saving blended winglets, reducing fuel burn by up to 5%.
- TUI Travel airlines will be the first in Europe to use the new innovative Split Scimitar Winglets, reducing fuel burn by an additional 2% (modified aircraft will begin flying from early 2014).
- We made a commitment to purchase 60 Boeing 737 MAX aircraft, with improved fuel-efficiency (2018 delivery onwards).
- Thomson Airways took delivery of their first batch of Boeing 787 Dreamliner aircraft, which are forecast to emit 20% less CO_2 per passenger kilometre than comparable aircraft today.
- Ultramar, our largest ground transport company, has installed satellite navigation in all vehicles to monitor fuel consumption, distances travelled, driver performance and route optimisation.
- We implemented a web-based sustainability data software solution. This software enables us to further improve data accuracy, provide advanced monitoring and reporting tools and increase data collection frequency.
- Sawadee, one of our Dutch tour operators, received the Best Carbon Reduction Initiative award in November 2012 at the World Responsible Tourism Awards for identifying effective ways of reducing the carbon footprint of their trips.
- Sunsail achieved certification by the British Standards Institute (BSI) to the sustainable event management (ISO 20121) standard, which recognises organisations that maximise economic, social and environmental opportunities at their events.

We have developed collaborative partnerships with many stakeholders whose insight and guidance continue to help us develop our position on aviation and climate change. Examples include: AlgaePARC in the Netherlands, Aviation Initiative for Renewable Energy in Germany (AIREG), CDP, Forum for the Future, Sustainable Aviation Fuel Users Group (SAFUG) and Sustainable Aviation in the UK.

Greenhouse gas emissions

TUI Travel has reported on all of the greenhouse gas (GHG) emission sources required under the Companies Act 2006 (Strategic and Directors' Reports Regulations 2013). The organisational boundary used for its Scope 1 & 2 and, where appropriate, Scope 3 inventory of GHG emissions is operational control and it corresponds to the Company's consolidated financial statements.

For the first time TUI Travel is disclosing carbon dioxide equivalent (CO_2e) data for both its absolute and relative (e.g. airline) emissions, historically we have just disclosed CO_2 emissions. CO_2e refers to CO_2 and the other five Kyoto GHGs: Methane (CH_4); Nitrous oxide (N_2O); Hydrofluorocarbons (HFCs); Perfluorocarbons (PFCs); and Sulphur hexafluoride (SF_6).

All material GHG emissions have been included and disclosed following a thorough review of entities and the emissions sources across the Company's UK and international operations. The methodology for the assessment is based on voluntary and mandatory GHG reporting guidance issued by DEFRA (the UK Government's Environment Department). Please see tables below for our absolute and intensity CO_2e and CO_2 data for FY13.

* An approximate figure of Group savings that have been tracked, gross of any upfront investments required to achieve those savings in 2012. Part of previously identified cost savings.

**The Company's auditors, PricewaterhouseCoopers (PwC), have verified the carbon intensity metrics displayed in the table on page 30 (PwC also assure our airline EU Emissions Trading Scheme data). To read our airline carbon data methodology document and PwC's Assurance Report in full, please visit: *www.tuitravelplc.com/sustainability/carbon*

AIRLINE GHG EMISSIONS DATA FOR PERIOD 1 OCTOBER 2012 – 30 SEPTEMBER 2013 INTENSITY (RELATIVE) METRIC*

TUI Travel airlines	gCO_2/Revenue Passenger Km	gCO_2e/Revenue Passenger Km
ArkeFly	73.5g	74.3g
Corsair	80.5g	81.4g
Jetairfly	73.9g	74.7g
Thomson Airways	69.5g	70.2g
TUIfly	65.5g	66.2g
TUIfly Nordic	63.1g	63.7g
TUI Travel airlines (average)	70.7g	71.4g

*For full details on the methodology used to calculate our intensity metrics and PwC's Assurance Report please visit *www.tuitravelplc.com/sustainability/carbon*

76%

TUIfly Nordic, Thomson Airways and TUIfly are all ISO 14001 certified – covering 76% of our aircraft

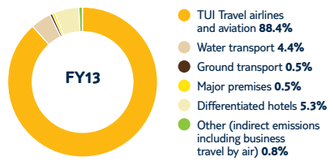
GLOBAL GHG EMISSIONS DATA FOR PERIOD 1 OCTOBER 2012 – 30 SEPTEMBER 2013 ABSOLUTE FIGURES

Source	CO_2 [t] (tonnes of carbon dioxide)	CO_2e [t] (tonnes of carbon dioxide equivalent)
Total scope 1 emissions	5,936,608	5,999,276
Total scope 2 emissions	303,759	305,230
Other (scope 3) emissions	52,084	52,271
Grand total	**6,292,451**	**6,356,777**

Scope 1 covers direct emissions

Scope 2 & 3 covers indirect emissions

BREAKDOWN OF TUI TRAVEL'S CARBON FOOTPRINT



For further details visit our latest Sustainable Holidays Report www.tuitravelplc.com/sustainability

STRATEGIC REPORT HOW WE DO IT

Sustainable development

Colleagues

GOAL BY 2015…

Our colleagues will rate TUI Travel as a leader in sustainability

We will measure this through the Your Voice global employee opinion survey results – aiming to meet High Performing Company scores for responsibility towards the environment and community for all colleagues and senior leaders.

Our colleagues are crucial to delivering our commitments on sustainability. We want them to be engaged, knowledgeable and enthusiastic about sustainability and we believe that this will drive recruitment and loyalty to TUI Travel.

Our business case

Research shows that a company's reputation is increasingly important to today's employees, who seek synergy between their own and their employer's values. Our HR colleagues regularly hear from new starters that TUI Travel's sustainability performance influenced their choice of TUI Travel as a prospective employer.

One of TUI Travel's core values is Responsible Leadership, which is increasingly embedded into how we measure behaviour and performance. Research carried out by the non-profit organisation Net Impact in 2012 shows employees who have the opportunity to make a direct social and environmental impact through their job report higher satisfaction levels than those who do not, by a factor of 2:1.

We communicate regularly about the progress we're making on securing a sustainable future for our industry. A key challenge is to make our Sustainable Holidays Plan accessible and practical for all colleagues. To this end we embed sustainability in recruitment material, our intranets, newsletters, inductions, blogs by senior managers, dedicated films and e-learning modules, as well as many other communication channels.

FY13 Highlights

- Many sustainability awareness-raising events took place. For example, TUI Travel colleagues in many destinations supported the Travel Foundation's 'Make Holidays Greener' month in July. In Greece we helped organise a high-profile beach clean-up in Zante, attended by the British Ambassador to Greece.
- Our sustainability commitments were integrated into the Group's Big Picture – an innovative way that we engage colleagues in TUI Travel's strategy and vision (see page 34).
- Colleagues from across the Group were involved in community volunteering initiatives, such as TUI India's colleagues who took part in a local school project in Delhi and A&D colleagues in the Dominican Republic improving the infrastructure of a school in Juanillo.
- TUI Nederland launched the TUI Care Foundation to support environmental and community projects, giving retail colleagues the opportunity to vote for their favourite projects. *www.tuicarefoundation.nl*
- We are working to engage our retail colleagues on sustainability. A retail champions' network has been set up at TUI UK & Ireland – colleagues visited sustainable tourism projects in Turkey this summer (and have now set sustainability targets for retail back in the UK). TUI Nederland has included sustainability as part of retail mystery shopping checks.
- We rolled out sustainability colleague focus groups to understand better our colleagues' views on these issues and inform our communications strategy.
- PEAK conducted a sustainability survey, asking colleagues to rank what they thought was a priority for their businesses and submit new ideas – over 500 colleagues took part.

FAMILY HOLIDAY ASSOCIATION

We are the largest corporate sponsor of the Family Holiday Association (FHA), a charity that provides simple breaks to disadvantaged children and their families in the UK. Since 2009 we have raised more than £1.9 million. Peter Long, Chief Executive of TUI Travel, was appointed President of the FHA on 1 October 2013.

www.fhaonline.org.uk

73

TUI UK & Ireland colleagues have spent 1-2 weeks volunteering overseas using their skills to support sustainable tourism projects

Customers

GOAL BY 2015…

Customers will regard TUI Travel as a leader in delivering more sustainable holidays

We will measure this by our performance in consumer research in our key source markets.

Through the purchases they make and the actions they take on holiday, our customers play a vital part in achieving TUI Travel's Sustainable Holidays Plan. That's why we are working to influence choice and develop new products to encourage customers to choose 'greener and fairer' holidays and act responsibly when they are on holiday.

Our business case

There is a growing awareness among our customers about sustainability, such as the impact of carbon emissions from flying and the need to ensure that local people get a fair deal from tourism. Although these issues are not the major deciding factor for most people when they choose a holiday, it is in the interest of our destinations and the environment that it becomes a strong influencing factor. In several of our key source markets we have found a positive correlation between more sustainable holidays and customer satisfaction.

We are encouraging holidaymakers to engage in sustainable tourism through our kids' club activities, school education initiatives, customer donation schemes and sustainable tourism campaigns.

FY13 Highlights

- At the end of 2012 we conducted international sustainability consumer research with 6,000 holidaymakers in six source markets and the findings were very similar to our research in 2010. We found that:
  - > 1 in 2 consumers would be willing to book a more sustainable holiday if available
  - > 2 in 3 consumers want their holiday company to be clear about what they do to make their holidays more sustainable
  - > 2 in 3 consumers would change their behaviour on holiday to help the environment
  - > We also found that Modern Mainstream consumers had a greater engagement with sustainability compared to traditional Mainstream consumers.
- We have developed an online platform called Spreading smiles to bring our sustainability initiatives to life for customers and colleagues. *www.spreadingsmiles.com*
- Fritidsresor, our brand in Sweden, was ranked most sustainable travel company in Sweden in the 2013 Sustainable Brand Index.
- Across the Group our businesses are working to reduce brochures and to use digital platforms throughout the customer journey. For example, Thomson launched an award-winning MyThomson app, allowing users to look up and book excursions on their smart phones, as well as find out about local events in their resort. TUI UK & Ireland reduced the number of brochure pages printed by 14% year-on-year.
- TUI UK & Ireland won a Silver Award in the Interactive Category of the IVCA Clarion Awards 2013 for their eco-traveller programme. The awards recognise best practice in communicating the importance of sustainability.

380,000

Number of UK school children who participated in the eco-traveller programme in FY13

LOCAL FOOD TOURS PROVE POPULAR

Intrepid Travel launched a new range of food trips in 2013, focusing on authentic, local food experiences and offering travellers a well-priced alternative to traditional, high-end gourmet food tours. The trips score an average of 4.79 out of 5 from passenger feedback and the range has been expanded to 19 trips in 2014.

How we do it: Our people

JACKY SAYS "THANK YOU…"

Contributing to our business performance are 55,000 of our people, each bringing their unique talent, experience and knowledge to TUI Travel. Only with invaluable input from such a wide cross-section of passionate, inspiring people, can we continue to innovate and deliver holidays and travel services to satisfy ever changing customer requirements.

I would like to thank all of our people for their hard work and commitment this year and for making these results possible during what are challenging times.

Thank you.

JACKY SIMMONDS Group HR Director
Jacky Simmonds joined First Choice in 2000 from Hearst Magazines UK (The National Magazine Company) where she led the HR function for six years. She was appointed as Group HR Director in 2010 having previously held a number of senior positions across the Group. Jacky was appointed HR Director for TUI UK & Ireland in 2007 and, following the Merger, was central to the integration of the First Choice and Thomson businesses. Since her appointment in 2010, there is a more aligned approach to HR across the Group which includes the creation of talent programmes, global functions for resourcing and the development of an integrated HR strategy. Jacky has experience of leading large-scale transformation programmes on both a local and global level.

Our people

Our team of 55,000 people working across the world in approximately 180 countries is what makes TUI Travel what it is today and gives us a real advantage. With our shared vision of making travel experiences special and our values of customer driven, playing to win, responsible leadership and value driven, we are all working towards the same strategy and strong growth plans for the future success of our business.

Engaging and involving our colleagues

With many brands and businesses across the world making up TUI Travel, there are many more things that make us the same and bind us together than those things that could be regarded as differences. The one shared vision and common values that we are all working towards really strengthen our business directly and impacts on our performance.

At the start of the last financial year, we introduced a new and simple way to convey the business strategy and vision for the future through the *Big Picture*. The Group Management Board worked together with colleagues from across the world to develop the visual, ensuring it represents the whole Group, its core essence and where the business is heading, recognising the financial and economic factors that affect our performance.

Designed with lots of detail to stimulate discussion, the purpose of the *Big Picture* is for it to be used as a tool to have conversations with our people to make sure that they understand our plans for the future, and the part that they can play. By using a picture we make sure that our story is clear, consistent and memorable. It helps to ensure that our strategy and vision is understood and contributes to making our people feel engaged and motivated.

The picture has been actively rolled out across our Group in all Sectors with the exception of the Specialist & Activity Sector where it will be rolled out following completion of the Sector's restructuring.

To measure whether we are meeting our people goals and ensuring that we are continually driving improvement, our first TUI Travel Group-wide global opinion survey took place in September 2012 across all areas of the Group. Work is well underway to address the survey feedback and a number of changes have already been made. As well as local plans being in place across the Group, themes to come out of the survey included Opportunity, Pride and Trust. The feedback around Opportunity focused on increasing the visibility of career opportunities and a new internal careers portal was launched in July bringing together TUI Travel's global vacancies for the first time (see Global Mobility and Collaboration). This also supports the feedback around Pride and our people wanting to feel part of one global business as we build and strengthen our TUI Travel identity as an employer. Raised as part of the Trust theme was leadership effectiveness and to help build trust through involvement and more focused employee communication, the TUI Travel *Big Picture* was introduced. These areas will be measured again in the next survey when we will also be able to benchmark our results and measure how these may have changed. Over the long-term, we strive to reach engagement levels that reflect high performance and in 2012 we reached 64%.

We also recognise that our people are incredibly knowledgeable about their business areas and that they have some great insight and ideas to offer. There are a number of active employee representative forums in place across the Group to ensure two-way feedback and involvement raising matters of importance to our people and our business. In addition, the Specialist & Activity Sector's Specialist Holidays Group has involved everyone working in that area to drive their Darwin business transformation project, giving them the opportunity to shape the way we work throughout the entire customer journey. Operating in workstreams, the project has been driven entirely by ideas generated from employees at all levels, empowering the team and giving them a vehicle to make a difference to the way we work.

Digitally enabling our people

With Online Driven being a key part of our strategy, we are committed to initiating and improving the digital literacy of our people across the world. Our Digital Workplace vision is to create a single environment that is available to our Group-wide colleagues anytime, anywhere, any way, which provides instant access to communications, colleague data, social interaction and working practices. Creating a Digital Workplace enables a transformation in our business culture, improving collaboration and efficiency in our working practices and increasing the awareness of expertise and knowledge sharing. This will empower our colleagues to become brand ambassadors enabling them to fully engage with our customers.

We've invested in a number of online tools to help support our people to build on their knowledge and help with this shift in mind-set. All of our colleagues now have access to E-consultancy, a global online resource providing digital training and materials.

Our global Finance Academy continues to bring our Group-wide finance community together to share best practice and provide access to the latest training and guidance, raising their skills and capability. The multi-lingual, secure, online Learning Management portal now has over 1,500 members across 42 countries with membership continuing to grow. Over 1,900 courses have been completed since the launch of the Finance Academy in April 2013. Sponsored by Will Waggott, CFO, the Academy has already enabled us to create and deliver the ongoing COSO internal control training, deliver targeted learning on Cash Management to senior finance staff, and provide best practice training and guidance on Financial Reporting through internal systems.

Within our Specialist & Activity Sector, the Specialist Holidays Group has introduced a Digital Academy boosting the digital talent pipeline, providing all employees across the business with the opportunity to apply for a six-month secondment to one of the digital teams. Successful candidates are appointed a mentor for the duration of the placement and are provided with both external and on-the-job support. Six placements have already taken place including employees from Commercial, Sales and Publishing.

1 2 3 4

1. PETER LONG
2. WILLIAM WAGGOTT
3. DR VOLKER BÖTTCHER
4. JOHAN LUNDGREN
For Executive biographies go to page 66

5. DAVID BURLING Managing Director, TUI UK & Ireland
David was appointed Managing Director for TUI UK & Ireland (TUI UK) in October 2011. David previously held the position of Commercial Director for TUI UK following the merger of the Tourism Division of TUI AG and First Choice in September 2007. David was key to the successful integration of the businesses, ensuring that both brands had clear strategy for growth. David first joined Thomson Holidays in 1990 and is now a member of the Mainstream Sector Board. In April 2012 he was appointed to the Group Management Board.

6. MITTU SRIDHARA Chief Information Officer
Mittu's main focus is transforming TUI Travel PLC into a digital online business that is able to serve its customers 'Anywhere, Anytime, Any Way'. Mittu has led global technology teams and formulated and delivered several multi-channel technology platforms and industry-leading digital products. Prior to this, Mittu has held senior IT roles at global organisations, starting his career at American Airlines Decision Technologies and moving on to companies including Sabre Holdings, the world's leading provider of IT solutions/decision support systems to the global travel and transportation sector, Ladbrokes PLC and AVIS Europe PLC. Mittu has featured in the top 50 of the TechRepublic CIO50 list for several years.

5 6 7 8 9

7. ANDREW JOHN Group Director – Secretariat, Health & Safety and Risk
Andrew John is a Solicitor who practised with the City law firm of Coward Chance prior to taking up a career in industry. He held the post of Director, Legal Affairs at Unisys Limited followed by various senior legal and commercial positions at Vickers PLC, which culminated in his appointment to the Vickers Board in 1994 as Commercial Director and Company Secretary. In that role he led several high profile acquisitions and disposals. Prior to his current role, Andrew was Group Legal Director & Company Secretary of First Choice, and subsequently TUI Travel.

8. CHRISTIAN CLEMENS Managing Director, TUI Germany
Christian Clemens joined the Group Management Board in July 2012. Prior to this, he was CEO of TUI Nordic from 2009 to 2012, joining the Company as General Manager Sweden in 2004 and then becoming responsible for Denmark, Finland, Norway and Sweden as COO of TUI Nordic in 2007. Between 1989 and 2004 Christian held a number of senior roles with Thomas Cook Northern Europe. Christian graduated as an engineer in Industrial Economy.

9. JOAN VILÀ Managing Director, Accommodation & Destinations
After developing his professional career in the Destination Services Division of the Barceló Travel Group, Joan Vilà was appointed Managing Director of the Division in 1999, which was integrated into First Choice Holidays PLC (First Choice) in 2000. In November 2002, he became a member of First Choice's Group Management Board. Joan is currently the Managing Director of the Accommodation & Destinations Sector of TUI Travel PLC and is also on the Group Management Board. He has an MBA from IESE, a degree in Economics from the University of Barcelona and has completed international business school programmes with Columbia Business School and IMD.

How we do it: Our people

continued

Investing in our leaders

At TUI Travel, we know that to deliver our strategy and ensure our future growth, we need talent, strong leadership and development opportunities for all.

Leadership at TUI Travel is about engaging and empowering people whilst delivering results and managing performance. To ensure this, our Global High Performance Leadership programme focuses on the development of our high-potential senior leaders, equipping them to support our commercial business growth and strategy. Sponsored by the Deputy Chief Executive and MD of Mainstream, Johan Lundgren, the programme aims to enhance strategic thinking and leadership skills, creating the foundation for more active collaboration across the Group. Held at the prestigious IMD business school in Switzerland, around 20 leaders participate each year and are set real high strategic priority business challenges to create tangible business improvement plans.

Reinforcing this, our suite of Global High Potential Learning & Development programmes has been designed for our talent in the early stages of their careers or who have been identified as successors to commercial senior leadership roles in the future. Sponsored by Joan Vilà, MD Accommodation & Destinations Sector, about 80 people take part in Perspectives each year, widening their understanding of the Group strategy, our expectations of future leaders and helping to drive the mobility of talent across the Group, supporting our global leadership culture. Our Horizons programme is also supported by members of the GMB who attend sessions and spend time with the circa 40 delegates that take part each year.

Two new core leadership programmes have been created to support managers' development and are being piloted through some markets with a view to launching globally across the Group during 2014. Leadership Essentials, a two-day workshop, focuses predominantly on self and people leadership and is designed for those early in their leadership journey to embed the behaviour which encourages this and brings out the best in people. Leadership Evolution is a three-day leadership workshop focused on self, people and business leadership designed for more experienced managers, allowing them to explore the evolution of themselves as a leader and the organisation in the face of a rapidly-changing environment.

In addition to these development initiatives, we also run internal and external mentoring and coaching programmes.

Developing our talent pipeline

To build our succession of leadership talent, our International Graduate Leadership Programme continues to attract, develop and retain high-quality graduates to become our future senior Commercial Leaders.

With two intakes per year, another five graduates joined our team in September 2013 from the UK, Germany, Romania and Spain. To reflect the increasing globalisation of our business, we focus on attracting graduates with an international mind-set and a professional approach suitable for our fast-paced, ever changing environment. There is a mentoring programme in place providing support throughout the 18-month programme and senior leaders are committed to meeting and developing the graduates through specific assignments in their businesses. Speaking a minimum of two languages including English, our graduates are provided with significant international commercial business exposure across the Group with the aim for them to become emerging leaders within 3-4 years.

Within TUI UK & Ireland, a placement scheme for university students takes place each year providing 8-10 people on a 'sandwich' degree course a placement in Trading, Product, Purchasing, Cruise and e-commerce. Having run successfully for five years, the scheme has won, and been shortlisted for, a number of awards including "Best Overall Placement Scheme" from National Council for Work Experience (2010) and regularly features in the Top 10 Placement schemes by RateMyPlacement.co.uk in which it is currently seventh in the medium-sized scheme category. 48 students have completed this scheme since it was introduced, with an additional eight joining for the 2013/14 year. 13 students who have completed the scheme have returned to the business on completion of their degree, with eight currently working in the business.

This business also has the leading employer apprenticeship programme in the UK & Ireland travel sector. Working in partnership with the Skills Funding Agency and strategic partner City & Guilds, a world leading vocational education organisation, over 400 qualifications have been achieved by our retail team this year. In December, after just one year with Thomson, Stacie Guiel, who joined our Brighton shop in 2011, was awarded a City & Guilds Medal for Excellence recognising her outstanding performance in travel services.

In addition, TUI UK & Ireland has succession planning programmes in retail and overseas at every level linked to recognised qualifications.

TUI Deutschland Leisure Travel has one of the largest training programmes in the German travel industry, with their apprenticeship scheme training approximately 250 people over three years. Securing the future of the business, the programme aims to attract the best candidates, setting high standards and qualifying criteria. In December 2012, Franziska Binner from Peine, finished her apprenticeship as the best merchant in tourism in Lower Saxony and was honoured by the Federal Minister for Family Affairs, Senior Citizens, Women and Youth, Dr Kristina Schröder. A blog (www.tui-azubiblog.de) was introduced at the end of 2012 where apprentices write about their experiences, providing an authentic report helping to promote the programme to prospective candidates.

Corsair has introduced a new apprenticeship scheme welcoming more than 30 trainees during 2013, demonstrating Corsair's commitment to develop and support young people into the workplace. Corsair has also partnered with two schools within the airline industry, the "Ecole Nationale de l'Aviation Civile" (ENAC) and AFMAE. ENAC, the only aviation focused university in France, offers training and continued education for pilots and engineers and AFMAE focuses on supporting other professions including cabin crew and technicians. These partnerships strengthen Corsair's offering for employees while ensuring quality in our professional training.

The Accommodation & Destinations Sector's Laterooms Group has started to work with Manchester Metropolitan University to attract graduate placements on to their Agency Life Student Project. Two students joined the scheme in October 2013 as part of the Marketing division, spending one day a week with LateRooms.com as part of their second year degree course. Enabling LateRooms.com to provide real experience for students, the programme also allows the business to develop, mentor and find future talent while raising awareness for the brand.

Global mobility and collaboration

To help improve global mobility, a new global resourcing function is being created for the financial year 2013/14 focusing on senior leadership and enabling our people to move more easily around the Group and the world. Driving the strategy for increasing the number of international moves across the business reinforces our commitment to internal promotions and moves.

As part of this and in response to the feedback in our global employee opinion survey Your Voice (see Engaging and Involving our Colleagues), a new internal careers portal was launched in July bringing together TUI Travel's global vacancies for the first time, increasing the visibility of career opportunities. Launched in all areas of the Group, around 50 management vacancies are advertised on a weekly basis covering all Sectors, with roles of all levels being introduced at the end of 2013.

These initiatives will enable us to monitor better mobility between businesses as well as across Sectors, continuing to build on and improve opportunities for career development while staying with TUI Travel.

We are also driving a more global mind-set by encouraging colleagues from across the Group based all over the world to work more closely together. Over the past 12 months the Mainstream Sector has been focusing on leveraging its scale by sharing best practice and working more collaboratively with each other. One example of this new way of working is the creation of a new Purchasing department, set up to buy on behalf of the whole of Mainstream rather than just for each individual Source Market. This has encouraged networking opportunities for our people and collaboration across all Source Markets as well as offering more value to the customer (see pages 14 to 25).

A team of individuals – strength in diversity

It is not only our customers that we recognise are all individuals. Our 55,000 strong workforce based all over the world represents a wide range of different backgrounds and cultures, enabling us to gain a real advantage and truly understand our customers and their ever changing needs. Our diversity is at the heart of our success and is one of our major strengths, making each brand so successful and our Company what it is.

We are clear that we don't tolerate discrimination under any circumstances and our ethos is that opportunities should be equally available to everyone. We have principles and guidelines in place to ensure this is maintained at every level, throughout our Company.

Illustrating this diverse workforce, 24% of our senior leaders (243) based across 24 countries are female. Across our total workforce, 63% of all employees and 38% of managers are female.

Rewarding our colleagues and supporting their wellbeing

It is the dedication of our people that makes the difference when it comes to making travel experiences special and we strive to make our people feel valued.

Recognising the importance of good retirement planning, we continue to offer pension arrangements across the Group reflective of local legislative requirements, as well as the economic position of our business and market practice. This year there have been significant changes in the UK with the introduction of new pension auto-enrolment legislation. Since June 2013, eligible employees are now automatically enrolled into our Company pension scheme with a set level of Company and employee contributions. Over 4,700 people have been successfully enrolled into the Company pension scheme.

We continue to encourage share ownership in the Company amongst colleagues. In the UK we are able to offer a share incentive plan that allows colleagues to purchase TUI Travel PLC shares in a tax efficient way.

The health and wellbeing of our colleagues is paramount and an example of how this is supported in TUI UK & Ireland is their pilot programme, Your Life – a healthier, happier you, which aims to increase employee engagement. The programme has resulted in a reduction in the average duration of long-term sickness absence and days lost through sickness. TUI Leisure Travel in Germany has also developed a new health management scheme as a part of a pilot project in our travel agencies focused on preserving the health of employees.

Human rights

Please see the Sustainable Development section, page 29.

THE BIG PICTURE

TCS & STARQUEST: TOP 100 BEST PLACES TO WORK

TCS & Starquest Expeditions, our private jet expedition company, has been named as one of the Top 100 Best Places to Work in Washington State by Seattle Business Magazine. The award recognises Washington companies that set the standard for leadership, strong benefits, ideal work environment, innovative training, and happiest employees, among other criteria.

"Our employees are the heart of our organisation and the biggest reason for our success over the years," commented Shelley Cline, Managing Director of TCS & Starquest Expeditions. "It is because of their dedication, passion, and expertise that we are able to deliver the best private jet and expedition travel experience in the industry."

TOMORROW'S TRAVEL LEADER: LEE NICHOLSON

Lee Nicholson, who joined Thomson Airways straight from university in 2006, is one of the 2013 winners of TTG's 30 under 30 in their Tomorrow's Travel Leaders competition. Working his way up from cabin crew to his current role as ground training instructor where he is credited with delivering innovative training packages, Lee said:

"It will be interesting to meet people outside aviation. I'm quite into digital and social media and Thomson's really aware of that. I've looked at other people from last year's group and they're very much online."

PARTNERSHIP WITH A4E

Partnering with A4e, a Government Work provider, we are working to support young people in the UK & Ireland into work. 50 people aged between 16-18 have been recruited into our JCA education brand who have since transferred into other business areas for their second season.

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

How we measure it: Key performance indicators (KPIs)

Our KPIs enable TUI Travel's stakeholders to monitor performance against our growth levers *(see more on page 57)* and growth roadmap.

	STRATEGY	STRATEGIC DRIVERS	GROWTH ROADMAP TARGET	PERFORMANCE	KEY PERFORMANCE INDICATORS
DELIVERING MAINSTREAM GROWTH	**UNIQUE HOLIDAYS ONLY AVAILABLE FROM TUI TRAVEL** Our unique holidays form the backbone of our Mainstream businesses and are exclusive to us. Unique holidays provide value added services and features which command a margin premium over commodity products. This in turn leads to higher customer loyalty and an increase in repeat bookings. Unique holidays also book earlier enabling us to manage our capacity and yield more effectively and it is very difficult for our competitors to replicate these concepts.		**We are targeting a unique holiday mix of 76%, as a proportion of total Mainstream Sector holidays by 2017, and continuous improvement in customer satisfaction.**	In the year, we increased the unique holidays mix by four percentage points across the Mainstream Sector as a whole to 69%. Within this, the UK and Germany improved by four percentage points to 83% and 51% respectively, and the Nordic region improved by one percentage point to 93%. Customer satisfaction for the UK, Nordic region and Germany combined increased by two percentage points to 79%, driven by improved scores in all three source markets.	**Unique holidays mix as a proportion of total Mainstream Sector package holidays** **2013: 69%** | 2012: 65% | 2011: 62% **Customer satisfaction for key Mainstream source markets** **2013: 79%** | 2012: 77% | 2011: 76%
	DISTRIBUTED DIRECTLY TO THE CUSTOMER – GROWTH FROM ONLINE Our direct distribution channels are central to the Group's strategy. By increasing the direct distribution of our holidays we lower distribution costs, reduce the reliance on third party distributors and can build on our customer relationships. As an online-driven business, we have a focus on the online customer experience. During the year, we continued to see the benefits of the investments we have been making in our online platforms. We are moving to one core online platform across Mainstream.		**We are targeting a direct distribution mix of 81% and an online distribution mix of 50% in our Mainstream Sector by 2017.**	To measure our progress, we have two distribution KPIs: (i) direct distribution mix; and (ii) online distribution mix. Direct distribution mix increased to 66%, with improvements in all source markets. The improvement in direct distribution was driven by the online channel which has increased by two percentage points in 2013 to 35%. Within this, the UK improved by three percentage points to 47%, the Nordic region improved by two percentage points to 68% and Germany improved by four percentage points to 8%.	**Direct distribution mix, as a proportion of total Mainstream Sector package holidays** **2013: 66%** | 2012: 65% | 2011: 63% **Online distribution mix, as a proportion of total Mainstream Sector package holidays** **2013: 35%** | 2012: 33% | 2011: 30%
	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.		**Within Mainstream, we target overheads of less than 5% in each source market.**	The Mainstream overhead percentage of revenue improved from 5.2% to 4.6% in 2013.	**Mainstream overhead as a % of revenue** **2013: 4.6%** | 2012: 5.2% | 2011: 5.4%
ORGANIC SPECIALIST & ACTIVITY GROWTH	We have completed our strategic review of the Specialist & Activity businesses and have refocused our plans for profitable growth and improved operational efficiency. We have a strong portfolio of established and popular brands with leadership positions in market segments which are continuing to grow.		**We are targeting underlying operating profit growth of between 8% to 10% per annum between 2012 and 2017*, including delivery of £9m business improvement savings.**	2013 was a year of restructuring and refocusing for the Specialist & Activity Sector and, as anticipated, underlying operating profit has not grown during the year. Now that the Sector restructure is complete, we look forward to delivering against our growth roadmap in the next four years. As part of this, we have already delivered £3m of business improvement savings during 2013.	**Underlying operating profit** **2013: £41m** **2012: £48m**

69%
of our Mainstream holidays were unique in 2013

79%
Customer satisfaction score in UK, Nordics and Germany combined during 2013

KEY TO STRATEGIC DRIVERS

CONTENT | BRANDS & DISTRIBUTION | TECHNOLOGY | GROWTH & SCALE | PEOPLE

See more about our strategic drivers on page 16

66%
of our Mainstream holidays during 2013 were distributed directly by us to the customer

35%
of our Mainstream holidays during 2013 were purchased online

*at constant currency rates

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

How we measure it: Key performance indicators (KPIs)

continued

	STRATEGY	STRATEGIC DRIVERS	GROWTH ROADMAP TARGET	PERFORMANCE	KEY PERFORMANCE INDICATORS
LEVERAGING OUR GLOBAL LEADERSHIP POSITION IN ACCOMMODATION WHOLESALER	Our Accommodation Wholesaler business (Hotelbeds and Bedsonline) is a market leader operating in the B2B segment with a global distribution presence. We have a clear strategy of consolidating our market-leading position even further by continuing to grow our existing destinations whilst accelerating our expansion into new markets with particular focus on Asia, Latin America and Africa.		**We are targeting an underlying operating profit growth for Accommodation Wholesaler of between 15% to 20% per annum between 2012 and 2017*.**	We had a strong performance in Accommodation Wholesaler in 2013, with 28% growth in underlying operating profit at constant currency (2012) rates. TTV grew by 23% from £1.351bn to £1.655bn in 2013, with 16% growth in roomnights. Top-line growth was driven primarily by expansion in Asia and Latin America.	**Growth in underlying operating profit** **2013: +28%** **Growth in roomnights** **2013: +16%**
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 through AsiaRooms.com across Asia and in Brazil with MalaPronta, Brazil's fourth largest accommodation-only OTA.		**We are targeting growth in traffic and roomnights in our existing OTA brands LateRooms, AsiaRooms and Malapronta.**	We continued to invest in the Asian and Brazilian markets in Accommodation OTA during 2013. Traffic grew by 7% in the year. Whilst roomnights grew by 8% in AsiaRooms, total roomnights fell by 6%, driven by LateRooms, which implemented a new online platform during the year.	**Growth in traffic** **2013: +7%** **Decrease in roomnights** **2013: -6%**
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.		**We target continuous improvement in Group ROIC and cash conversion of at least 70% of profit before tax. We are targeting delivery of the remaining £19m of business improvement opportunities over the next two years.**	ROIC has improved again this year by 2.6 percentage points to 14.8%, driven by the significant increase in underlying net operating profit after tax. We generated a cash conversion rate of 90% in 2013 as a result of a strong operating cash flow performance. We continue to target a cash conversion rate of at least 70% going forward. We delivered £46m of operational efficiency savings through the business improvement programme in the last 12 months, with a further £19m to be delivered in the next two years.	**ROIC** **2013: 14.8%** | 2012: 12.2% | 2011: 11.3% **Cash conversion[1]** **2013: 90%** | 2012: 78% | 2011: 120% **Business improvement programme** **2013: £46m** [1] Free cash flow excludes net aircraft pre-delivery payments and movements in restricted cash
PIONEERING SUSTAINABILITY CHANGE IN OUR SECTOR	We are experiencing greater stakeholder interest in sustainability and believe that creating more sustainable holidays will help protect our product into the future and also support product differentiation, brand loyalty, customer satisfaction and competitive advantage.		**We are targeting our airlines to reduce per passenger carbon emissions by 9% by 2015 (against a baseline of 2008). See Sustainable Development section.**	We made significant improvements in 2013. Our airlines' per passenger carbon emissions reduced by 3.2% year on year, from 73.0g CO_2/RPK in 2012 to 70.7g CO_2/RPK in 2013, a 9.3% reduction against our 2008 baseline year. This was achieved through investment in new more fuel-efficient aircraft, operational efficiencies, fuel conservation activities and capacity amends.	**Carbon efficiency, measured through TUI Travel airlines' average carbon emissions per revenue passenger kilometre (g CO_2/RPK)** **2013: 70.7g CO_2/RPK** 2012: 73.0g CO_2/RPK 2011: 75.9g CO_2/RPK

28%
growth in Accommodation Wholesaler underlying operating profit in 2013

£46m
business improvement savings delivered during 2013

KEY TO STRATEGIC DRIVERS

CONTENT | BRANDS & DISTRIBUTION | TECHNOLOGY | GROWTH & SCALE | PEOPLE

See more about our strategic drivers on page 16

14.8%
ROIC improved by 2.6 percentage points during 2013 to 14.8%

90%
cash conversion during 2013, significantly above our target of 70%

*at constant currency rates

STRATEGIC REPORT

What are the risks? Principal risks

Risk Governance

- Successful risk management is critical to the long-term success of our business and a key area of management focus.
- We continue to strengthen our risk governance framework which enables us to understand more fully the threats and opportunities in the market place, to match these against the strengths and weaknesses of our Group and to respond accordingly. Our risk management process, and the risk software supporting it, helps to drive clarity, consistency, transparency and accountability at every level of the organisation. It enables us to understand and manage our risk exposures (both individually and in aggregate) across the Group so that, at any given time, we are incurring the right level and the right type of risk to pursue effectively our strategic goals.
- We recognise that good risk governance exists when an organisation is intuitively sensitive to changes in its risk landscape and its risk profile and is quick to flex either its strategic objective and/or its risk strategy, as necessary. We also recognise that this capability requires active commitment at the top, a strong independent risk function, clear, consistent risk methodology and language, good information flows and a culture of open and honest communication.
- Our risk governance framework is set out below and summarises the various risk related roles, responsibilities and relationships operating throughout the Group.

Strategic Risk Governance

Risks OF the Strategy: (Direction)

The Board determines the strategic direction of the business and agrees the nature and extent of the risk it is prepared to take to achieve its strategic objectives.

Effective risk management is dependent on the capability and commitment of our people. The **Nomination Committee** ensures that an appropriate balance of skills, knowledge and experience exists in the Boardroom to understand and manage the risk environment at a strategic level, providing a culture whereby risks and assumptions are rigorously and freely challenged and debated.

To ensure that the strategic direction chosen by the business represents the best of the strategic options open to it, the Board is supported by the **Group Strategy function**. This function exists to facilitate and inform the Board's assessment of the risk landscape and development of potential strategies by which it can drive long-term shareholder value. On an annual basis the Group Strategy function develops an in-depth fact base, in a consistent format which outlines the market attractiveness, competitive position and financial performance by Sector and source market. These are presented to the Board by the Executive Directors and time set aside in April, July and September to allow full consideration and debate as to the level and type of risk that the Board finds appropriate in the pursuit of enhanced shareholder value. Through this process, the strategic options and the trade-offs between risk and reward are debated upfront and through ongoing review and refinement are pulled progressively into the close weave of strategic intent that best fits the business, its culture, capabilities and resource. The strategy, once fully defined, considered and approved by the Board, is then incorporated into the Group's five year roadmap and helps to define and communicate the risk appetite and expectations of the organisation both internally and externally.

Risks TO the Strategy: (Execution)

Having determined the appropriate level of risk for the business, in relation to the potential for reward, the Board then ensures that risks to the delivery of the strategic objectives are identified, assessed and managed effectively.

While the Nomination Committee ensures an optimum balance of skills, knowledge and experience required within the executive management team to deliver the strategy, the **Remuneration Committee** ensures the appropriate incentivisation to drive high performance with commensurate control. Business performance relating to the achievement of strategic, operational and financial objectives is reviewed and monitored closely at **Business Review Meetings** chaired by the Chief Executive.

The **Audit Committee**, on behalf of the Board, seeks assurance that the risk management process is operating effectively throughout the organisation and that risks to the delivery of the strategy and long-term viability of the business are being managed effectively such that the risk profile is well within the risk capacity of the organisation and appropriately aligned with the risk appetite set by the Board. The Audit Committee receives this assurance from three lines of defence:

Management: The Audit Committee invites presentations from management on a routine basis to understand the key risks facing their businesses and how these are being addressed.

Group Functions: The Audit Committee receives updates from the **Group Risk Management Committee** (GRMC) and **Group Risk function** on activities relating to risk management as well as updates from the **Group functions (including their relevant Compliance functions)** on activities relating to the establishment of control standards and adherence to them.

Internal Audit: The Audit Committee receives assurance from Internal Audit over the processes, Principal risks and business transformation initiatives most critical to the Group's continued success.

Operational Risk Governance

Whilst ultimate responsibility for risk management rests with the Board, effective day-to-day management of risk sits within the business. Management is responsible for setting the right tone at the top and establishing a culture where employees are expected to be risk aware, control minded and to 'do the right thing'.

The GRMC is a Committee of the Group Management Board (GMB) comprising the full membership of the GMB supported by key members of the risk and control community. It is chaired by the Chief Executive and meets four times a year. The GRMC has two key responsibilities:

- to ensure that an effective risk management process is operating throughout the organisation
- to be involved actively in identifying, assessing and managing those risks most significant to the long-term value of the organisation.

To discharge the first of these responsibilities the GRMC selects key business areas and Group functions for scrutiny and invites the MDs and their Risk Champions (individuals chosen by the MDs to champion the process in their respective business areas) to discuss how risk is managed (risk process) and the risks identified 'bottom up' as a result (risk content). It also receives regular presentations from the Director of Group Audit Services & Risk on the ongoing level of engagement and effectiveness of each Sector/Source Market in relation to the risk management process, specific areas of strength and weakness by individual business area and an analysis of the 'bottom up' risks reported, along with any developing themes.

The majority of GRMC time however is reserved for the identification, assessment and management of Principal risks to the Group strategy. Individual members of the GRMC are accountable for specific Principal risks and for the quality of Risk & Control Summaries which set out the key controls on which reliance is placed and the further actions that are required, as necessary, to achieve targeted risk level. These risks, controls and targets are reviewed and approved at the GRMC and then communicated 'top down' to the wider business to ensure that risks are managed within these levels through the organisation.

Recognising the unpredictability and speed at which risks can materialise into issues (risk velocity) and the impact this can have on the Group, the GRMC has developed tailored response plans for each of the Group's key risks. Principal risk owners within the GRMC are accountable for developing Key Risk Indicators, as appropriate to increase the organisation's awareness and sensitivity to movements in its risk landscape, thereby helping to extend its risk horizon and enhance its risk response capability. The GRMC also recognises the natural cycle of risk exposure, the interaction of individual risks and the extent to which individual risks may be offset through natural hedging or amplified through specific risk combinations.

Feedback to the Board

The Director of Group Audit Services & Risk provides an update to the Audit Committee and the Board on how risk is being managed across the organisation (risk process) and the Executive Directors provide an update to the Board twice a year on the key risks under consideration (risk content). This feedback is reviewed and debated by the Board to ensure that it fits within its overall risk appetite. Where there is misalignment between the risk profile and the risk appetite (i.e. management are taking too much or too little risk relative to the strategic objectives) the Board seeks to ensure that appropriate corrective action is being taken. During the year the Board reviewed the completeness of the Principal risks, debated risk appetite and management's alignment with it and raised issues relating to the transparency and consistency of 'bottom up' risks reported.

Additional sub committees of the GMB

The following committees form part of the overall risk governance framework:

The **Capability Committee** supports the risk governance process by assessing the Group's current capability and competence against its future needs in the achievement of its strategic objectives.

The **Investment Committee** ensures that risk and reward is closely scrutinised prior to any acquisitions, capital expenditure and major investments.

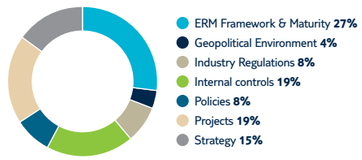
The **Projects Committee** oversees cross-Group projects and ensures that interdependencies and risks (both upside and downside) are understood fully and guidance provided, as appropriate.

Risk Management Process

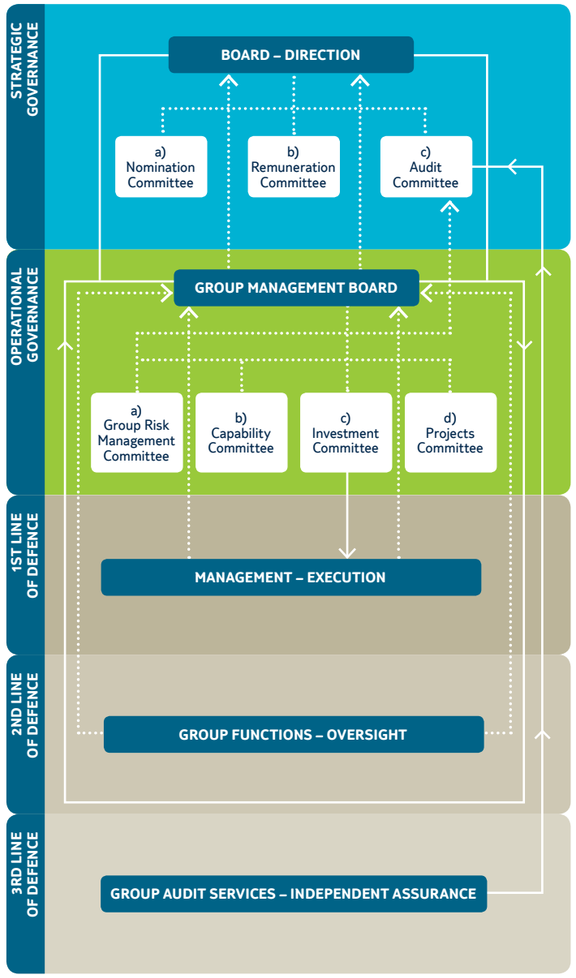
The Group Risk function supports the risk management process by providing guidance, support and challenge to management whilst acting as the central point for co-ordinating, monitoring and reporting on risk across the Group.

The Group Risk function applies a consistent risk methodology across all key areas of the business. This is underpinned by risk and control software implemented during FY12 which has reinforced clarity of language, visibility of risks, controls and actions and accountability of ownership.

TOPICS PRESENTED AND DEBATED AT THE GRMC DURING THE YEAR



Risk Governance Framework



What are the risks? Principal risks

continued

Risk Identification: On a quarterly basis, line management closest to the risks identify the gross risks relevant to the pursuit of strategy within their business area in the context of:

- longer-term strategic and emerging threats;
- medium-term challenges associated with business change programmes;
- shorter-term risks triggered by changes in the external and regulatory environment; and
- shorter-term risks in relation to internal operations and control.

Risk Descriptions: The nature of the risk is articulated, including the possible causal factors that may give rise to the risk materialising. This allows the Sectors/Source Markets and the Group to assess the interaction of risks and potential triggering events and/or aggregated impacts before developing appropriate mitigation strategies to target causes and/or consequences.

Risk Assessment: Risks are assessed in relation to potential impact and likelihood as measured against predefined financial and non-financial criteria relevant to the specific business area. The current (net) risk position which takes into account existing controls is then considered in relation to the risk target. Where the overall current risk profile is considered too high, relative to the aggregated appetite of the Group, management identify mitigating actions to achieve the target (planned) risk position. Where the risk profile is too low, management can afford to take more risk.

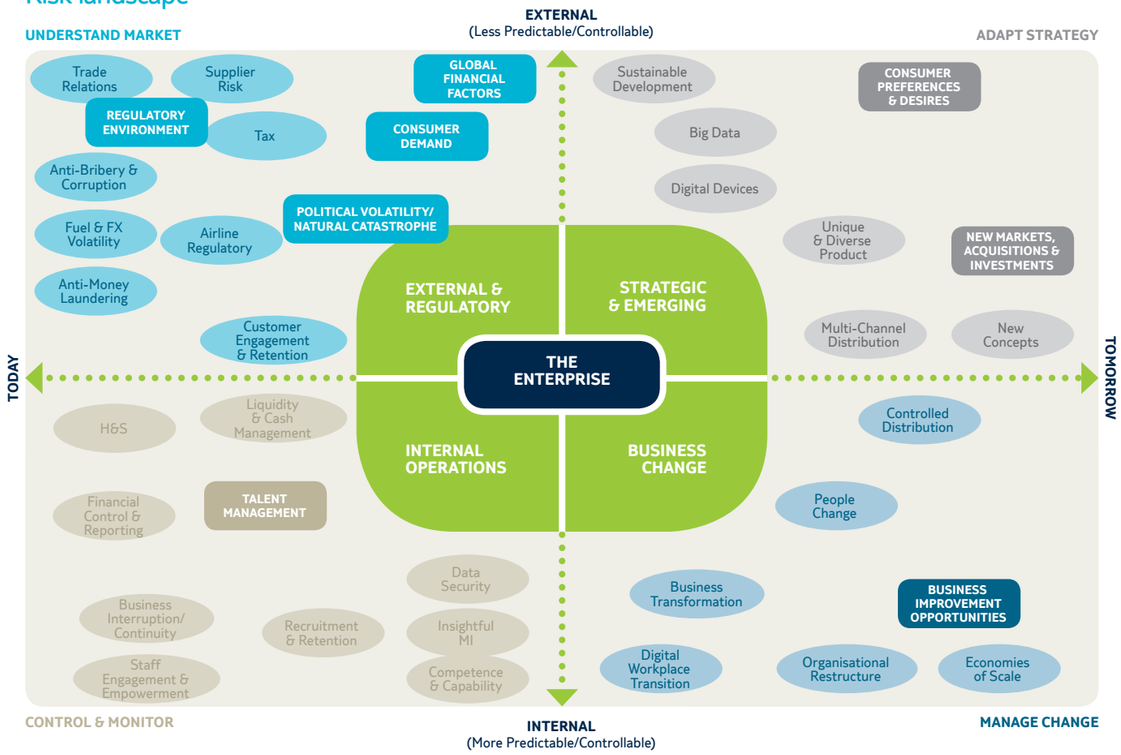
Risk Response:

- Mitigating Controls: For the Principal Risks (reviewed and monitored by the GRMC) and the next layer of risks (reviewed and monitored at Sector/Source Market level) the controls on which reliance is placed are formally documented by management, as required. These controls are articulated in detail (control type, control owner, control operators, control frequency) in the Risk & Control Summaries and are subject to independent validation by Internal Audit, the results of which are reported directly both to the Audit Committee and to the Board.
- Mitigating Actions: Where mitigating actions are required these are also articulated in detail (action plan owner, action task owners, initial and revised delivery dates) and then tracked by the GRMC or Sector/Source Market, as appropriate depending on the significance of the risk.

Review and Approval: It is the responsibility of Sector and Source Market Boards across the Group (and senior management teams beneath them) to review and agree the risk profile for their area of responsibility, including signing off on the effectiveness of controls and the progression of action plans within agreed delivery timescales.

The Group Risk function consolidates the Sector/Source Market risk registers and reports this 'bottom-up' to the GRMC for review alongside the Group's Principal risks. New risks are added to the Group Risk Profile if deemed to be of a significant nature so that the ongoing status and the progression of key action plans can be managed in line with the Group's targets and expectations.

Risk landscape



Principal risk table

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
STRATEGIC		
CONSUMER PREFERENCES & DESIRES **STRATEGIC DRIVERS** CONTENT BRANDS & DISTRIBUTION TECHNOLOGY GROWTH & SCALE PEOPLE	**CONTEXT** Price, product and digital solutions play a key part in the consumer's decision-making process. Consumers are increasingly turning online to research and book holidays and are moving towards booking nearer the time of travel. **RISK** We do not identify or respond quickly enough to changes in consumer preferences and do not keep up with latest technological developments. **POTENTIAL IMPACT** Our market positions come under pressure resulting in lower short to medium-term growth rates and reduced margins. **APPETITE** We are eager to be innovative and consider all investment options to ensure we remain relevant to our consumer preferences & desires. **NET RISK MOVEMENT** ▼ *"Following our results it is obvious that our strategy of unique holidays sold directly to our customers is the right one. As the business continues its move towards a more online future, and while we efficiently manage our costs, we continue to build upon the foundations of a business set for sustainable growth. Our colleagues within the business care deeply about the customer experience and everything we do is built around enhancing it at every level, through every stage of the customer journey, from dreaming of a holiday to sharing it with family and friends once they have returned home."*	**GROUP-WIDE** *Ongoing* • Monitoring closely changes in consumer preferences and sentiment within the wider context of our industry and the different sources of influence on our customers' spending. • Developing new concepts and services which are unique, diverse and value adding. • Maintaining our focus on being an 'online driven' business, and tracking the gap (both upside and downside) between our offer and the competition's to inform effective decision-making. *Progress* • Established a dedicated Group Digital Solutions PMO to lead IT innovation across the Group, identify participation in emerging technologies and drive market intelligence. • Agreed funding to test and develop important new technologies to ensure our ongoing relevance to consumers. *Planned* • Exploring how 'Big Data' (customer, social and performance data combined) might inform our strategy and enable us to personalise our interactions with our customers. **TOUR OPERATOR** *Ongoing* • Leveraging our Mainstream structure to enhance the portfolio of unique and exclusive products designed to increase our competitive advantage. • Monitoring closely our concept portfolio and developing new hotel concepts and adapting these, where appropriate, for our different source markets. • Developing the strong brand portfolio of tailor-made products and services within our Specialist businesses and reviewing opportunities to extend it into new markets. • Investing in online platforms and enhancing booking and search functionality in order to provide our customers with easy to access inspirational content whilst consolidating finance and reservation systems to leverage scale across multiple source markets. • Focusing on being an online-driven business including our participation in social media according to the preferences of our customers, encompassing the entire customer journey from dreaming and planning through to experiencing and sharing. *Progress* • Increased the volume of unique holidays and selling to our customers through multiple channels in a number of our key source markets thereby enhancing our customer booking experience. • Developed and launched a pan-Mainstream all-inclusive 3* concept 'SuneoClub' featuring a series of bright, modern and friendly three star all-inclusive hotels offering new standards of quality and affordability for our customers. • Launched new services and tailor-made offerings within our Specialist businesses providing a seamless service which in turn is driving considerable growth. • Created a Mainstream Distribution & Online team providing a clear focus, drive and support to all Mainstream Source Markets through sharing of best practice on all digital matters, retail operations, CRM and ancillaries, providing an immediate improvement to the customer experience. • Launched the My Thomson Digital Assistant in our UK source market with plans to extend it out to our other source markets to help our customers plan their holidays and explore the destination before they arrive. • Started the transformation of the traditional travel agency into the next-generation retail concept store, combining the knowledge and expertise of our people with the latest technology as we move into a fully multi-channel world. **ONLINE ACCOMMODATION** *Ongoing* • Reviewing closely our offer to ensure that we have a wide variety of product, in terms of quality, destination and budget, that our content is rich and inspiring and that it translates well digitally in order to attract and retain our diversified customer base. • Continuing to update and upgrade IT platforms to ensure our Wholesaler and OTA businesses are supported by effective and efficient systems improving the service delivery to our global customers that underpins our growth strategy. *Progress* • Delivered mobile optimised websites for LateRooms, AsiaRooms and MalaPronta and have developed mobile apps for AsiaRooms and LateRooms.

See 'Our five strategic drivers' page 16

Principal risk table
continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
STRATEGIC		
BUSINESS IMPROVEMENT OPPORTUNITIES **STRATEGIC DRIVERS** CONTENT BRANDS & DISTRIBUTION TECHNOLOGY GROWTH & SCALE PEOPLE	**CONTEXT** The Group is heavily reliant on legacy systems, processes and structures which, in some cases, are outdated, complex and inefficient. **RISK** We do not address successfully the legacy inefficiencies and complexities of our existing infrastructure. **POTENTIAL IMPACT** We incur higher costs due to inefficiencies, impacting our ability to optimise business performance and provide a value-added service to our consumers. **APPETITE** We are eager to be innovative and consider all options that might strengthen our infrastructure and drive out cost and complexity. **NET RISK MOVEMENT** ▼ *"We have been successful in implementing our Group-wide business improvement programmes this year. The total savings made this year equates to £46m, an acceleration of the target outlined at the start of year. These cost savings were primarily driven by back office restructuring and IT platform replacement across a number of markets."* *"We are an online business but we continue to drive further enhancements through technologies that amplify the customer experience at the front-end and drive further efficiencies in the back-end processes."* *"We are pleased to say that we were the first business in the UK to take delivery of the Boeing 787 Dreamliner that has exceeded customer and our own expectations in its first few months of operation. In May we committed to purchasing 60 new Boeing 737 MAX aircraft and secured the option and right to purchase another 90 on the same terms. The deal will enhance our unique offering, replace older aircraft and help secure the future of our six airlines."*	**GROUP-WIDE** *Ongoing* • Driving stronger and more cost-effective relationships with key service providers through better co-ordination of key procurement activities. • Strengthening our internal control environment through the rollout of the COSO control framework across Financial Reporting, Compliance and Operational categories of control through the establishment of Group Finance, Legal & Regulatory and IT Compliance. • Implementing business continuity management in our various businesses in order to build resilience into our operations. *Progress* • Restructured the Group CIO function to provide the governance framework required to deliver technology innovation. • Instigated a review of project management competence/capability and the adequacy/effectiveness of central oversight/control in order to ensure that the governance in place adequately reflects the current and future transformation needs of the organisation. • Established Compliance Steering Group to ensure better understanding and management of interrelationship of risks and controls between COSO categories. **TOUR OPERATOR** *Ongoing* • Reviewing areas where the efficiency of our operations can be further improved and costs reduced without compromising on customer experience. • Increasing controlled distribution thereby reducing third party costs and enabling a direct relationship with our customers. • Upgrading our web front-end reservation and finance systems across all source markets with plans progressing well in our key source markets such as Germany and the UK. *Progress* • Focused on exploiting our Mainstream structure to leverage scale in order to grow and consolidate our leading position within Europe and to ensure we are well placed to offset any adverse movement in some of our other Principal Risks. • Established the Mainstream Purchasing Team to act globally and focus on purchasing the right product at the right price to provide best value for money. • Established a Modern Destination Services Board with senior executives from both our Mainstream and Specialist Destination Services division (providing excursions, transfers and other tailored products) creating a strong and mutually beneficial relationship and added value to the consumer. • Commenced flying the Boeing 787 Dreamliner on long-haul routes vastly improving our customers' flying experience whilst driving down costs and improving airline and environmental efficiencies. • Committed to the purchase of 60 Boeing 737 MAX aircraft to replace the 757 fleet and older 737s across our airlines to operate our short and medium-haul flights, improving cost efficiency through simplifying operational training and maintenance. • Restructured our Specialist and Activity Sector resulting in a simplified management structure, increased sharing of expertise and knowledge across divisions, improved operational efficiency and a platform for future growth. • Committed to combining the UK Finance Shared Service Centre with the existing German Finance Shared Service Centre in order to create one transactional back office Finance team working from one common platform enabling us to be more operationally efficient and effective. **ONLINE ACCOMMODATION** *Ongoing* • Continuing our IT transformation programme in our Wholesaler and OTA businesses to improve overall competitiveness and facilitate the rapid integration of new brands whether acquired or organically developed. • Progressing our strategy of consolidating our market-leading position by further expanding in existing destinations whilst focusing on our development in both new source markets as well as new destinations. *Planned* • Planning to drive superior growth by developing new distribution channels and new customer segments in this market.

See 'Our five strategic drivers' page 16

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
STRATEGIC		
NEW MARKETS, ACQUISITIONS & INVESTMENTS **STRATEGIC DRIVERS** CONTENT BRANDS & DISTRIBUTION TECHNOLOGY GROWTH & SCALE PEOPLE	**CONTEXT** The Group continues to look into new markets as the traditional Mainstream markets mature. Specialist businesses, online accommodation and new markets represent a significant opportunity to participate in longer-term travel growth trends and have higher growth potential. **RISK** We do not maximise potential growth opportunities to deliver results in New Markets due to lack of investment appetite, short termism and difficulty in leveraging Group assets and integrating operations and systems. **POTENTIAL IMPACT** Our potential long-term growth rates and margins are impacted, with cash flows lower than anticipated and significant absorption of resource. **APPETITE** We are willing to consider all markets, acquisitions and investments to drive long-term sustainable growth value. **NET RISK MOVEMENT** ▶ *"Acquisitions were made in the year for a total investment value of £30m in order to expand business operations in line with the Group's growth strategy. Businesses acquired during the year primarily related to the 50.1% of TUI Infotec GmbH that the Group did not already own and 100% of the share capital of JBS Group, Isango! and TT Visa Services."*	**GROUP-WIDE** *Progress* • Established a dedicated Group-wide Mergers & Acquisitions team to help identify and optimise the best growth opportunities available across the Group through M&A activity. • Created a New Markets division focusing specifically on merger, acquisition and joint venture opportunities in emerging economies in order to optimise our investments and to evaluate where existing Group assets can be best leveraged into new markets. **TOUR OPERATOR** *Ongoing* • Developing and delivering the participation strategy for both outbound and domestic tour operations in new markets, to create long-term growth and improved shareholder value. *Progress* • Established a presence for TUI Travel in the BRIC economies of Brazil, Russia, India and China with focus now switched to assessing the next set of new frontier markets. *Planned* • Planning to expand further our long established tour operator, TUI India (now the preferred agent for the promotion and sales of Emirates Holidays in India) to cater for the domestic and outbound consumer through a combination of own retail travel agencies, an extensive B2B network and online. **ONLINE ACCOMMODATION** *Progress* • Developed a clear strategy for targeting emerging markets, in particular in Africa, Asia and Latin America. • AsiaRooms recognised as the best OTA in Asia Pacific due to our excellence in online experience and customer service. • Increased our Brazilian Accommodation OTA MalaPronta hotel portfolio in the past year across the main domestic destinations of Sao Paulo, Rio de Janeiro and Curitiba.

Business improvement opportunities

Committed to purchase 60 Boeing 737 MAX aircraft to replace the 757 fleet

New Markets, Acquisitions & Investments

AsiaRooms recognised as best OTA in Asia Pacific, through online experience and customer service

See 'Our five strategic drivers' page 16

Principal risk table
continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
OPERATIONAL		
GLOBAL FINANCIAL FACTORS **STRATEGIC DRIVERS** GROWTH & SCALE	**CONTEXT** The cross-border nature of trading exposes our business to fluctuations in exchange rates and complex tax laws. In addition a significant proportion of operating expenses are in relation to aircraft fuel which is also subject to fluctuation. Geo-political events continue to highlight the inherent risks within travel and tourism, whilst the ongoing banking sector recovery and the introduction of Basel III have the potential to impact long-term financing availability. **RISK** We do not manage adequately the volatility of exchange rates and fuel prices or other rising input costs; we face an increase in tax authorities taking a more strident tax approach in order to fund local fiscal deficits; and difficulties in securing additional facilities, if needed, and at a reasonable cost. **POTENTIAL IMPACT** We suffer increased costs which reduce demand resulting in lower revenue and/or margins. We face a negative impact on cash flow, lengthy tax litigation processes and possible reduction in Group's after-tax earnings. **APPETITE** We are eager to ensure as stable and as predictable an environment as possible in relation to FX & fuel, tax, funding and liquidity. **NET RISK MOVEMENT** *"We remain satisfied with our funding and liquidity position. We have three main sources of long-term debt funding as at 9 December 2013 – these include the external bank revolving credit facilities totalling £1,120m which mature in June 2015, a £350m convertible bond (due October 2014) and a £400m convertible bond (due April 2017). The external bank revolving facilities are used to manage the seasonality of the Group's cash flows and liquidity."* *"We have hedged the majority of our fuel and currency requirements for the seasons currently on sale, which gives us certainty of costs when planning capacity and pricing."*	**GROUP-WIDE** *Ongoing* • Ensuring that hedging cover for fuel and foreign currency is taken out ahead of source market customer booking profiles to provide certainty of input costs when planning pricing and capacity. • Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies. • Maintaining high-quality relationships with tax authorities through regular communication keeping them informed of the commercial reality of our business operations. • Monitoring our funding and liquidity position to ensure key facilities are refinanced well ahead of maturity. We recognise the impact that different aspects of our operations can have on our access to financial facilities and seek to ensure that these are appropriately understood and controlled. • Maintaining high-quality relationships with the Group's key financiers and monitoring compliance with the covenants contained within our financing facilities. *Progress* • Secured a £300m medium-term bank credit facility available until April 2016 giving greater flexibility in our financing and access to further funds as required. This reflects the banks' ongoing confidence in our strategy, business model and operational competence. • Raised over £400m of long-term financing for nine aircraft scheduled for delivery during FY14. This financing was raised on competitive terms through a combination of finance leasing and sale and leaseback.

See 'Our five strategic drivers' page 16

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
OPERATIONAL		
CONSUMER DEMAND **STRATEGIC DRIVERS** CONTENT BRANDS & DISTRIBUTION TECHNOLOGY GROWTH & SCALE PEOPLE	**CONTEXT** Spending on travel and tourism is discretionary and price sensitive. The economic outlook remains uncertain with different source markets at different points in the recovery cycle. Consumers are also waiting longer to book their trips in order to assess their financial situation. **RISK** We do not respond successfully to changes in consumer demand and/or the consumer preference for late booking. **POTENTIAL IMPACT** Our short-term growth rates and margins are lower than anticipated. **APPETITE** We are willing to consider all options to secure and improve the flexibility, resilience and attractiveness of our business model. **NET RISK MOVEMENT** *"The travel market continues to be driven by high growth in online bookings and, while the uncertain economic environment has had an effect on consumer travel spending habits, demand for leisure travel remains strong."* *"Overall, we are pleased with trading at the start of our new financial year. Winter 2013/14 performance is in line with expectations with 60% of the programme sold. For Summer 2014, we are encouraged by early trading despite strong comparatives. In particular, we continue to see strong demand for our unique holidays."*	**GROUP-WIDE** *Ongoing* • Maintaining our focus on creating lifetime relationships with our customers through great service and fantastic lifetime experiences. **TOUR OPERATOR** *Ongoing* • Assessing our product offering in the context of the confidence levels and cost of living pressures being experienced by our customers. • Exploiting the flexibility and resilience of our business model and the functionality of our sophisticated capacity and yield management systems in order to drive margins and profits growth by ensuring that capacity is aligned very closely to forecasts. *Progress* • Developed and launched a pan-Mainstream all-inclusive 3* concept 'SuneoClub' featuring a series of bright, modern and friendly all-inclusive hotels offering new standards of quality and affordability. • Established the Mainstream Purchasing Team to act globally and focus on purchasing the right product at the right price to provide direct value to our customers and benefit hoteliers. **ONLINE ACCOMMODATION** *Ongoing* • Continuing to exploit our model which involves minimum commitment risk and operates extremely well in relation to the online lates market.

Consumer Demand

'SuneoClub' – the new concept launched, focusing on quality simultaneous to affordability for the consumer

Global Financial Factors

Secured a £300m medium-term credit facility, ensuring greater financial flexibility and further funds, as required

See 'Our five strategic drivers' page 16

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
OPERATIONAL		
TALENT MANAGEMENT **STRATEGIC DRIVERS** TECHNOLOGY PEOPLE	**CONTEXT** The Group's success depends on its ability to retain key management and it relies on having good relations with its colleagues. **RISK** We are unable to attract and retain talent, build future leadership capability and maintain the commitment and trust of our employees. **POTENTIAL IMPACT** We do not maximise on our operating results and financial performance. **APPETITE** We are willing to invest in the appropriate level of competence and capability to drive the future success of our business. **NET RISK MOVEMENT** *"Our colleagues are the true driver of the business. Their commitment, endeavour and passion to deliver incredible travel experiences for our customers is proven in the exceptional results we have announced this financial year."*	**GROUP-WIDE** *Ongoing* • Assessing our organisational competence and capability against that required to maximise current and future shareholder value. • Ensuring succession plans are in place for all identified business critical roles, in particular emergency successors for all Source Market and Sector Board roles, and that these plans are reviewed every six months. • Using our Group-wide leadership framework (including our Your Voice survey) to engage and empower people whilst delivering results and managing performance. • Building our pipeline of leadership talent through our International Graduate Leadership Programme which attracts, develops and retains high quality graduates to become our future senior Commercial Leaders. • Driving high performance and engagement through our performance review, development plans and career planning process. • Extending our 'risk & control & doing the right thing' objectives down through the organisation as part of developing a strong culture of effective risk governance. • Extending competency testing of our key finance management in order to assess the adequacy of the skill-set of individual finance managers as well as the competency of the finance community within key businesses and across the Group as a whole. • Focusing on digitally enabling our people in support of our commitment to be an online driven company. *Progress* • Invested in a number of online tools to support the creation of a Digital Workplace so our people can build on their knowledge and move towards a transformation in learning and career development. • Introduced a suite of Global High Potential Learning & Development programmes designed for our talent in the early stages of their careers or who have been identified as successors to commercial senior leadership roles in the future. • Built on the successful launch of our Finance Academy with a number of modules designed to drive up levels of financial maturity within our various businesses for both financial and non-financial employees.

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
OPERATIONAL		
POLITICAL VOLATILITY, NATURAL CATASTROPHES AND OUTBREAKS **STRATEGIC DRIVERS** CONTENT GROWTH & SCALE	**CONTEXT** Providers of holiday and travel services are exposed to the inherent risk of domestic and/or international incidents affecting some countries/destinations within their operations. During the summer months we faced disruption in both Turkey and Egypt. **RISK** We are not able to respond efficiently and effectively to large scale events. **POTENTIAL IMPACT** We suffer significant operational disruption in our Source Markets and destinations leading to significant losses (holiday cancellations, repatriation of customers) and a general decline in consumer demand and increase in our insurance premiums. **APPETITE** We are willing to consider all options to secure and improve the flexibility and resilience of our business model in order to withstand ad-hoc shocks to our operations. **NET RISK MOVEMENT** *"We operate in a market segment that, as a matter of course, has to weather geo-political events. As a result, it is vital that we have a strong and resilient business model that enables us to deliver on our strategy, which in turn drives long-term sustainable growth and increased shareholder returns."*	**GROUP-WIDE** *Ongoing* • Maintaining a balanced destination mix to minimise concentration and having flexible supplier agreements in order to enable capacity to be switched as required. • Leveraging our unique products and our strong brand to drive earlier booking, giving us more time to react to external events. • Reviewing trading outlooks destination by destination with the management team of each business area during our regular business review meetings and developing operational contingency as appropriate. • Maintaining strong relationships with local tourism bodies, travel and aviation industry associations, actively monitoring the political situation in volatile destinations and acting upon security intelligence advice as it is received. • Minimising the impact of negative events in our source markets and destinations by ensuring the effective execution of our established incident management and emergency response plans and the deployment of our experienced leadership teams to support and repatriate stranded customers. • Tracking hotel commitments and prepayments on a timely and sufficiently granular basis to manage our financial exposure to justifiable levels. • Promoting the benefits of travelling with a recognised and leading tour operator to increase consumer confidence and peace of mind. *Progress* • Developed a standard set of terms and conditions for our Mainstream accommodation contracts from Summer 2014 with clauses that contain termination rights following force majeure or Euro break-up.

RISK CATEGORY	NATURE AND EXTENT OF RISK	CURRENT MITIGATION
COMPLIANCE		
REGULATORY ENVIRONMENT **STRATEGIC DRIVERS** CONTENT GROWTH & SCALE	**CONTEXT** Industries in which the Group operates are highly regulated, particularly in relation to consumer protection, aviation and the environment. **RISK** We do not establish an effective system of internal control to ensure we operate in compliance with all legal and regulatory requirements. **POTENTIAL IMPACT** We suffer negative impact which damages our reputation, results in reduced revenue and/or higher input costs. **APPETITE** We are committed fully to being a good corporate citizen in all of the countries in which we operate. **NET RISK MOVEMENT** *"The last 12 months have seen significant developments at the European level with the Commission proposing new legislation in the area of Air Passenger Rights and bringing forward proposals for reform of the Package Travel Directive. We have engaged consistently with the Commission as they have developed these proposals and will engage over the coming 12 months with the European Parliament and the Council of Ministers as they come to consider the suggested reforms in detail."* *"TUI Travel is a truly worldwide organisation and we are committed to operating our business in a sustainable manner. We have a three-year Sustainable Holidays Plan, launched in 2012, which sets out four overarching goals with 20 measurable and challenging commitments to responsible tourism."*	**GROUP-WIDE** *Ongoing* • Addressing issues affecting the industry and our customers through our political and regulatory affairs team, who engage with regulators and governments to help ensure legislation that is fit for purpose, properly balances the interests of industry and consumers and treats all industry players fairly. • Lobbying for greater clarity and simplification of the Package Travel Directive to ensure a level playing field across the industry for all those involved in putting together more than one element of a holiday (flight, transportation, accommodation, excursions etc.). • Maintaining a comprehensive Anti-Bribery & Corruption (ABC) training programme across the Group in order to raise awareness of the provisions of the Bribery Act 2010 in order to prevent bribery and corruption in the countries in which we operate. • Monitoring the adequacy and effectiveness of the ABC procedures and measures established, including self-certification twice a year by all of our businesses across the Group. *Progress* • Worked with other industry stakeholders to develop a counter proposal to the recent ruling by the European Court in relation to Air Passenger Rights which we believe will both reduce our exposure and also safeguard the longer-term interests of our customers. • Reviewed the effectiveness of our flight planning and established appropriate monitoring controls for on-time performance as a way of both improving customer service and minimising the impact of the recent ruling by the European Court. • Commenced lobbying to simplify the Package Travel Directive in order to make it easier to understand for both the customer and the industry. • Committed to developing more sustainable holidays and to reducing the environmental impact at each stage of our customer's journey. Established a dedicated sustainable development team to support the Group and work closely with business management (see our Sustainable Development section on page 26). • Achieved our airline carbon reduction target of 9% (2008-2014) one year ahead of schedule through a mixture of operational efficiencies, fuel conservation activities, capacity amendments and airline enhancements. • Invested significantly in cutting edge aviation technology including the Boeing 787 Dreamliner aircraft, which are forecast to emit 20% less CO_2 per passenger than comparable aircraft today, the new innovative Split Scimitar Winglets, reducing fuel burn by an additional 2%, and committed to purchasing 60 Boeing 737 MAX aircraft, with improved fuel-efficiency (2018 delivery). • Recognised in the top tier of the FTSE 350 for carbon reporting following the introduction of UK legislation on carbon reporting for the largest UK companies. We are a third more fuel and carbon efficient than the average scheduled carrier in Europe and are now calling for greater transparency and reporting of consistent metrics across all airlines so that the government can consider adjusting its taxes fairly and proportionately. • Implemented a web-based sustainability data software solution to further improve data accuracy, increase data collection frequency and provide reporting that supports advanced monitoring and targeting of further efficiency opportunities. • Established a Group Health & Safety Compliance function to oversee and ensure that the Health & Safety Management Systems employed by our businesses are compliant with Group Policy and that there is appropriate protection in place for both our customers and our colleagues. • Established Group Legal & Regulatory Compliance function to improve our central oversight, understanding and control of local practices in relation to ABC, Anti-Money Laundering, Know Your Supplier, Know Your Customer and Competition Law. • Used the newly established Group IT Compliance function to support the Group Legal & Regulatory Compliance function by improving central oversight, understanding and control relating to PCI DSS and data protection. • Launched our Supplier Code of Conduct (available in 11 languages) which is the first time a set of social and ethical values has been given to our suppliers. This plays an important role in our vision, reflecting our value of responsible leadership in the travel industry.

The ordering does not seek to provide an indication of the relative significance of the risks nor is it a complete list of all the risks to which the Group is exposed.

See 'Our five strategic drivers' page 16

STRATEGIC REPORT

Health & Safety

The Group attaches great importance to the health and safety (H&S) of its customers and employees at all levels of the business. Andrew John, Group Director – Secretariat, Health & Safety and Risk (formerly Group Legal Director & Company Secretary), continues to be the Group Management Board (GMB) member with responsibility for reporting to the GMB on H&S matters.

Sectors, and the divisions and businesses within them, continue to liaise, co-operate and share best practice in line with the TUI Travel H&S Policy Statement issued and signed by the Chief Executive, Peter Long.

In the Group airlines, a risk-based safety management system (which engages the whole airline at all levels in safety management) is used. The operations of the airlines are regulated by the European Aviation Safety Agency (EASA) and by the applicable national aviation body (e.g. in the United Kingdom, the Civil Aviation Authority). Each Group airline has clearly identified accountable senior managers responsible for safety in the key areas of flight operations, training, ground operations and engineering. The National Aviation Authorities regularly inspect and audit each airline's safety management system.

In our non-aviation business operations, several significant H&S related developments have occurred during the year including:

- the analysis of the results of the H&S questionnaire sent to all businesses across the Group by the Group Legal & Regulatory Compliance Department;
- Group Audit Services conducted a series of audits to assess H&S management systems in each Mainstream business and to ensure these are closely co-ordinated across the Sector; and
- an H&S project team has been created under the 'Modern Mainstream' concept, tasked with looking at H&S standards and how these are co-ordinated and implemented across the Mainstream Sector.

At Group level, the Board authorised the creation, with effect from 1 July 2013, of a small Group H&S Compliance Department tasked with:

- monitoring H&S management systems across the Group, collating the relevant data and arranging for regular reporting to the GMB and the Board against established Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs);
- documenting and communicating to all businesses minimum Group H&S management system requirements and associated H&S standards;
- providing training in H&S incident reporting and risk assessments; and
- providing guidance, advice and support to operating businesses.

While primary responsibility for H&S management remains at the business unit or operational level within the Sectors, this first line of defence is augmented by the Group H&S Compliance Department through the activities described above. Further assurance that sound H&S management systems are employed is provided by Group Audit Services.

Employee safety

The range of potential hazards faced by our employees is as varied as the products offered across the Group. For example, employees working in our offices and retail outlets have a relatively low-risk workplace, while those employed in the Marine or Aviation Engineering Departments have a relatively higher-risk workplace.

The hazards faced by our employees and others affected by our activities, are subject to workplace risk assessments which highlight areas of concern and enable the development of measures to control or remove the hazards. Safety management systems continue to be developed and adapted by the individual businesses and both Sector and divisional H&S professionals assist each business with their specific H&S management needs.

The Group H&S induction programme – Safety in your Workplace – continues to be used to provide a baseline of H&S knowledge for employees. Since its launch in 2008, over 8,000 employees have completed the programme.

Within the United Kingdom, any relevant injuries, diseases or dangerous occurrences are reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). The incident statistics for the UK for 2012/13 are given below.

Within the United Kingdom local and national authorities continue to visit various Group premises offering advice and highlighting relevant issues. No enforcement notices or convictions have occurred within the 2012/13 financial year.

UK INCIDENT DATA OCTOBER 2012 TO SEPTEMBER 2013

UK incident category	Airline equivalent[1]	UK & Ireland	Crawley and other businesses	Total
Number of incidents	480	51	50	**581**
Number of over-seven-day incidents[2]	23	1	24	**48**
Number of RIDDOR major incidents	–	2	–	**2**
Number of RIDDOR fatalities	–	–	–	**–**

1 Where an incident occurs outside the United Kingdom it is not reportable under the RIDDOR legislation but the business reports it as an 'RIDDOR equivalent'

2 Where, due to an accident at work, an employee is unable to perform their normal work duties for more than seven consecutive days

Customer safety

Each of the Sectors has responsibility for ensuring that sound customer H&S practices and robust safety management systems are embedded within their businesses.

In the Mainstream Sector, the UK & Ireland business has outsourced certain aspects of its H&S activities to specialist external third-party providers who supply services related to general customer safety. This includes audits of overseas accommodation, transport and excursion suppliers (utilising a mix of physical visits and self-assessments), new builds and major refurbishments as well as targeted hygiene, water and food safety consultancy when high-risk areas are identified.

These third-party providers are instructed and monitored by our UK-based team, which sets the H&S strategy, agrees the audit schedule and takes responsibility for the development and implementation of the UK & Ireland Mainstream safety management system.

In our German businesses, there is a dedicated H&S team which is responsible for all H&S matters, together with the development and implementation of standards to ensure the wellbeing of all customers. Regular checks are undertaken and all relevant areas are monitored and reviewed on a continuous basis to identify any potential risks.

In the Nordics, H&S activities across the Mainstream businesses (Sweden, Norway, Denmark and Finland) are co-ordinated through the Crisis Management & Sustainability Business Development team. This team is responsible for setting H&S strategy, undertaking audits and for the operation and development of the TUI Nordic safety management system.

The Specialist & Activity Sector (SAS) operates a Sector-specific H&S function. The Sector's H&S team consists of 12 professionals based in the UK and overseas, servicing all six SAS divisions. Audits of suppliers are undertaken utilising a mix of physical inspections and supplier self-assessments by means of 'Sure2Care' – the in-house web-based due diligence system.

During the year, an enhanced system of 'risk profiling' was introduced against which all SAS businesses are measured. Appropriate safety management systems are devised and implemented according to the risks identified within each business.

In the Accommodation & Destinations Sector (A&D), H&S is managed by each individual division and business. These businesses are either involved in the supply of traditional destination market services (such as accommodation, excursions and transportation) or in the online supply of hotel accommodation in many countries. The 'Sure2Care' in-house safety system tool is used to verify the safety of the products and services being marketed.

The Strategic report was approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and signed on its behalf by:

Peter Long
Chief Executive
9 December 2013

BUSINESS AND FINANCIAL REVIEW

Group performance

Year ended 30 September

£m	Underlying results[1] 2013	2012	Change %	Statutory results 2013	2012
Revenue	**15,051**	14,460	**+4%**	**15,051**	14,460
Operating profit	**589**	490	**+20%**	**297**	301
Profit before tax	**473**	390	**+21%**	**181**	201
Free cash flow[2]	**427**	305	**+40%**	**427**	305
Basic EPS (pence)	**30.8**	25.8	**+19%**	**5.4**	12.5
Dividend per share (pence)	**13.5**	11.7	**+15%**	**13.5**	11.7

1 Underlying operating profit excludes separately disclosed items, acquisition related expenses, impairment of goodwill and available for sale financial assets and interest and taxation of results of the Group's joint ventures and associates

2 Restated to reflect the exclusion of restricted cash and pre-delivery payments

Group revenue grew by 4% from the prior year to £15,051m (2012: £14,460m). This result was driven by organic growth of 2% and a foreign currency translation impact of 2%. Organic revenue growth was driven by higher package volumes and average selling prices in many source markets.

The main drivers of the year-on-year improvement in underlying operating profit are as follows:

	£m
2012 underlying operating profit	**490**
Mainstream trading	+34
French contract provision	-11
Accommodation Wholesaler	+10
Specialist & Activity	-12
Other	-2
Business improvement	+46
2013 underlying operating profit at constant currency	**555**
FX translation	+34
2013 underlying operating profit	**589**

Underlying operating profit improved by £65m to £555m in 2013, on a constant currency basis, an increase of 13%.

The improvement in operating profit was driven by strong performances in the UK, Germany and Nordic region as well as the delivery of £46m cost savings through the business improvement programme. These cost savings were primarily driven by back office restructuring and IT platform replacement across a number of markets. However, these positive results were partially offset by weakness in our French tour operator and Specialist & Activity Sector.

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

Year ended 30 September	2013 £m	2012 £m
Underlying operating profit	**589**	490
Separately disclosed items	**(24)**	(92)
Acquisition related expenses	**(65)**	(62)
Impairment of goodwill	**(188)**	(20)
Impairment of available for sale financial asset	**–**	(10)
Taxation on profits and interest of joint ventures and associates	**(15)**	(5)
Statutory operating profit	**297**	301

£589m
Underlying operating profit for 2013

£46m
Cost savings through the business improvement programme

William Waggott
Chief Financial Officer

+15%
Increase in full year dividend per share

Fleet

Having taken delivery of our first Boeing 787-8 Dreamliner aircraft earlier this year, we announced on 19 November 2013 that we are ordering two additional 787-8 aircraft. The additional order takes the Group's commitment from 13 to 15 Dreamliners, with the additional two aircraft expected to arrive in 2016. TUI Travel operates six airlines, four of which operate, or will operate, Dreamliner aircraft: Thomson Airways, Arkefly, TUI Fly Nordic and Jetairfly.

As well as long haul, we also confirmed plans to renew our short/mid haul fleet during the year. On 9 July 2013, we announced the order of 60 narrow-body Boeing 737 MAX aircraft from Boeing, as part of our fleet renewal strategy and move to Modern Mainstream. The 737 MAX aircraft utilise a new technology engine type from CFM which Boeing asserts results in a 13% improvement in fuel efficiency and a 40% noise reduction over today's main competitors. This results in lower per seat costs than current generation aircraft and competitor products. The delivery period for the 60 committed aircraft will start in January 2018 and run until March 2023. We also have the option and right to purchase up to a further 90 Boeing 737 MAX aircraft.

Acquisitions & investments

Acquisitions were made in the year for a total investment value of £30m in order to expand business operations in line with the Group's growth strategy. Businesses acquired during the year primarily related to the 50.1% of TUI Infotec GmbH that the Group did not already own and 100% of the share capital of JBS Group, Isango! and TT Visa Services.

Net financial expenses

Net financial expenses have increased from £100m to £116m, primarily as a result of one-off gains in the prior year not repeating of £9m, coupled with £7m higher expenses from asset backed financing in the current year.

The revision to IAS 19 'Employee benefits' is effective for the financial year commencing 1 October 2013 and makes significant changes to the recognition, measurement and disclosure of defined benefit pension schemes. The most significant impact for the Group is that interest expense will be calculated by applying the discount rate on the net defined benefit liability. This replaces the interest cost on the defined benefit obligation and the expected return on plan assets. Had the standard been applied in the current financial year, the Group's net financial expense would have been £12m higher.

Separately disclosed items (SDIs)

Separately disclosed items net to a £24m expense in the year (2012: £92m expense). The following table provides a breakdown of these items:

	2013 £m	2012 £m
Restructuring	**54**	102
Pension credit	**(25)**	–
Other	**(5)**	(10)
Total SDIs	**24**	92

The separately disclosed items expense includes the following items:

- £25m occurring in France from the ongoing restructure of the tour operator and the airline.
- £18m incurred in the Specialist & Activity sector due to the removal of the sector management team, the closure of a business in the Languages division, further restructuring of the adventure business and rationalisation of overseas bases in the Marine division.
- £7m in Accommodation & Destinations sector due to a rationalisation of business structure in several regional programmes.
- £25m pension credit relating to the closure of the TUI Netherlands defined benefit pension scheme and transfer of the existing pension fund assets and liabilities to AEGON.

Further information is included within Note 4.

Goodwill impairment charge

The total goodwill impairment charge recognised in the year was £188m. This included a £119m impairment within Specialist & Activity, primarily across the Education, Marine and Sport businesses, and a £69m impairment within Mainstream, primarily relating to businesses trading in North Africa.

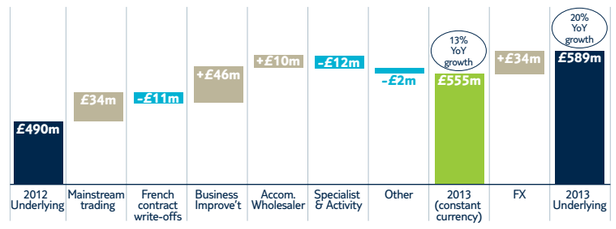
Further information is included within Note 10.

Taxation

The underlying effective rate of taxation for the year ended 30 September 2013 is calculated based on the underlying profit before tax (excluding separately disclosed items, acquisition related expenses and impairment charges) for the year of £473m and is calculated at 27%. Based on the current structure of the business and existing local taxation rates and legislation, it is expected that the underlying tax rate will be maintained at this level in the medium term.

The actual tax rate of 72% differs from the underlying effective tax rate due to the tax effect of the non-recognition of tax losses in France and goodwill impairment charges of £188m on which no tax deduction is available.

GROUP OPERATING PROFIT BRIDGE



Group performance

Year ended 30 September continued

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. During the year, the Group paid £14m of UK cash corporation tax and a further £96m of cash corporate taxes in other jurisdictions. In the coming year, we envisage a cash tax rate of approximately 20% of underlying profit before tax.

In October 2013, the Group reached agreement on the terms to settle a tax audit with the Spanish tax authorities. Further information is included within Note 8.

Earnings per share

Underlying basic earnings per share was 30.8p (2012: 25.8p). Statutory basic earnings per share was 5.4p (2012: 12.5p).

Dividends

The Board is recommending a final dividend of 9.75p per share (2012: 8.30p). On 10 May 2013 the Board recommended an interim dividend of 3.75p per share (2012: 3.40p), making a full year dividend of 13.5p per share (2012: 11.7p). The final dividend will be paid on 9 April 2014 to holders of relevant shares on the register at 7 March 2014.

The Group's policy is to maintain underlying dividend cover at around two times. We intend to continue to operate a dividend re-investment plan as an alternative to receiving a cash dividend.

Cash and liquidity

The net cash position (cash and cash equivalents less loans, overdrafts and finance leases) at 30 September 2013 was £2m (30 September 2012: net debt of £142m). This excludes restricted cash of £145m (2012: £34m). The increase in restricted cash is primarily due to receipt of £98m from the Belgian government in relation to disputed VAT in a long-running court case. Further information is included in Note 17.

The net cash position consisted of £1,753m of cash and cash equivalents, which includes restricted cash of £145m, £594m of current interest-bearing loans and liabilities and £1,012m of non-current interest-bearing loans and liabilities. As at 30 September 2013, undrawn committed borrowing facilities totalled £1,192m (2012: £1,018m).

Cashflow conversion is 90% of underlying profit before tax. Free cash flow improved by 40% to £427m (2012: £305m), analysed as follows:

	2013 £m	2012 £m
Underlying operating profit	**589**	490
Depreciation and amortisation included within underlying operating profit	**202**	152
Underlying EBITDA[1]	**791**	642
Working capital movement	**172**	104
Capital expenditure (net of disposals)	**(217)**	(209)
Pension funding	**(74)**	(42)
Tax	**(110)**	(82)
Interest	**(71)**	(60)
Exceptional cash costs	**(64)**	(48)
Free cash flow	**427**	305

1 Earnings before interest, tax, depreciation and amortisation

We remain satisfied with our funding and liquidity position. We have three main sources of long-term debt funding as at 9 December 2013 – these include the external bank revolving credit facilities totalling £1,120m which mature in June 2015, a £350m convertible bond (due October 2014) and a £400m convertible bond (due April 2017). The external bank revolving facilities are used to manage the seasonality of the Group's cash flows and liquidity.

We signed a medium-term £300m bank credit facility during the year, maturing in April 2016. This was to ensure the Group was in a position, if required, to redeem the £350m convertible bond that matures in October 2014. We expect to refinance our bank revolving credit facility approximately 12 months ahead of its maturity date.

83%
of UK bookings are for unique holidays

+20%
increase in underlying operating profit growth

Our growth levers

Creating shareholder value

We are very pleased with our performance this year against our clearly defined strategic growth levers. These 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

We are 18 months into running this Sector in a more cohesive way which we are calling "One Mainstream". This move is enabling us to fully leverage both the strength of expertise across the Sector and the scale of the Group. Our Mainstream business reported a record performance over the year, with underlying operating profits growing by 22% to £514m. Since the creation of the Mainstream Board, a lot has been achieved:

- Our single purchasing team is responsible for purchasing £4.5bn of accommodation across all our Mainstream businesses; gaining key exclusivities, driving down cost and managing commitments to ensure we leverage our scale as Europe's largest tour operator.
- We have a unified approach to the development of international unique holiday concepts.
- The Distribution and Online function is responsible for developing and agreeing the direct distribution strategy across all source markets.
- Within Digital Transformation we are taking a single approach across booking systems, platforms, customer engagement tools and digital content.
- In-Resort Services is focused on delivering a modern efficient digitally enabled service to our customers in resort.
- The Group's five leisure airlines are reducing duplication, driving best practice, investing once for the benefit of all five airlines and improving flexibility wherever possible.
- Across the Sector, benchmarking of cost and revenue positions has led to clear business efficiency targets to drive down costs in the back office and drive ancillary revenue benefits.
- One Mainstream enables us to further develop our customer proposition and our customer experience function will ensure that we consistently touch every part of our customer's journey. One Mainstream continues to evolve, delivering greater benefits as one business across the strategic drivers of unique holidays, direct distribution and operational efficiency.

1.1 Unique holidays only available from TUI Travel

Unique holidays

Our unique holidays form the backbone of our Mainstream businesses and are exclusive to us. Unique holidays provide value added services and features which command a margin premium over commodity products. This in turn leads to higher customer loyalty and an increase in repeat bookings. Unique holidays also book earlier enabling us to manage our capacity and yield more effectively. Due to our experience in designing and operating new concepts it is very difficult for our competitors to replicate these holidays.

Sales of higher margin unique holidays during the year increased by four percentage points to 69% of Mainstream holidays. This includes the UK and Germany, which both saw sales of unique holidays increase by four percentage points. The Nordics market saw unique holidays increase by one percentage point over the year. In the UK, 93% of Thomson holidays were unique in Summer 2013. We achieved a customer satisfaction score of 79% for our three largest Mainstream markets, a two percentage point increase over the prior year, driven by improved scores in all three source markets. Demand for unique holiday experiences continues to see strong growth and our customers are more delighted than ever 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. This year we have successfully launched our award-winning digital assistant app in the UK and German markets. The apps have received almost 200,000 downloads to date and good levels of engagement with almost 100,000 shares through social media channels.

Other markets will launch on the same platform during 2014 giving us one common mobility platform across all markets. The digital assistant 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 an ongoing pipeline of features continuing to be added, including mobile boarding passes, seat selection and upgrade, search and book functionality as well as an ability to create personalised recommendations and offers. To connect our people with our customers we are digitally enabling our in-resort teams with tablets to effectively connect our physical presence with the digital world.

Flight experience

A key part of our unique holiday offering is also the flight experience and we continue to reshape the composition of our airline fleet to drive customer satisfaction and simplify the fleet to one short-haul and one long-haul aircraft type. We were the first UK operator to take delivery of the Boeing 787-8 Dreamliner earlier this year and remain the only integrated tour operator to operate these aircraft. The customer experience is very important to us and the feedback we receive from those who fly on these aircraft is exceptional. The Boeing 787 family provides unmatched fuel efficiency, resulting in exceptional environmental performance. The aircraft uses 20 % less fuel than today's aircraft of a similar size. We are also enabling a single set of operating procedures for the Boeing 787-8 Dreamliner fleet across engineering, maintenance and crew, creating a more flexible and efficient fleet.

Having a modern, cost-efficient and reliable fleet is strategically important to the Group. We are strongly positioned with a young aircraft fleet compared to other leisure airlines. The average age of our fleet is eight years, however a significant portion of our narrow body fleet consists of Boeing 737-800 aircraft which have an average age of 5.5 years. Being able to offer our customers the most advanced, comfortable aircraft, whether they are travelling with us to short or long-haul destinations, while reducing our environmental impact, will only strengthen our position. In July 2013 our shareholders approved an order for 60 new Boeing 737-MAX aircraft with deliveries beginning in 2018, along with an option and right to acquire up to 90 further aircraft. This will further reduce the average age of our fleet, resulting in TUI Travel continuing to operate one of the youngest and most fuel efficient airlines in Europe.

1.2 Distributed directly to the customer – growth from online

Direct distribution

Our direct distribution channels are central to the Group's strategy. By increasing the direct distribution of our holidays we lower distribution costs, reduce the reliance on third party distributors and can build on our customer relationships. Our direct distribution mix improved by one percentage point over the year to 66% 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 two percentage points in 2013 to 35% of Mainstream sales. During the year, we generated £3.7bn of revenue online within our Mainstream business, reflecting 12% growth in online package bookings.

Our growth levers

Creating shareholder value continued

One online platform

As an online-driven business, we have a focus on the online customer experience. During the year, we continued to see the benefits of the investments we have been making in our online platforms. We are moving to one core online platform across Mainstream. The UK and Nordic markets have made this transition and are seeing significant improvements in conversion as a result of the redesigned user experience and search functionality that makes it easier for the customer to find their perfect holiday experience with us. Our other core markets will begin using the same online platform during the course of 2014. The websites in our core online markets are now tablet and mobile optimised as our customers increasingly use their tablets and mobile devices to dream, plan, search and book with us.

Next generation retail stores

We continue to modernise our retail offering. In the UK we have launched the first of our next generation stores which combine personal advice and service with a rich digital experience that enables customers to build their perfect holiday. This will be integrated into a holiday planner tool that allows them to take their ideas home with them and book using whatever channel they choose.

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. The move from multiple online and back-end platforms to one core platform is a key driver of efficiencies going forward.

We have market leading positions and brands across our portfolio. The breadth of our brands offers our customers a wealth of holiday experiences. This leading market position and scale means that our competition cannot easily replicate what we do. There are significant barriers to entry in both our positioning and deep-rooted relationships with hotel suppliers. Our scale also enables us to deliver synergy benefits through joint contracting and purchasing of accommodation and destination contracting.

During the year, overheads as a percentage of sales fell by 60bp from 5.2% to 4.6%. We expect to hold overheads in absolute terms and, as a result, overheads as a percentage of sales will reduce further.

2. Organic Specialist & Activity growth

The Specialist & Activity Sector offers a wide range of unique activity and experience based holidays to 1.4m customers from around the world. We have market-leading positions in a number of specialist segments with a portfolio of experiential and tailor-made holidays, unrivalled product knowledge and superb customer experiences.

During 2013, the Specialist & Activity Sector underwent a strategic review which included a change in management, a reduction of central costs from streamlining back-office operations and the exit of a number of unprofitable lines of business. As a result, overall sales were down on the prior year. Now that this review is complete we are confident of delivering underlying annualised profit growth of 8-10% at constant currency in the year ahead.

We are investing in our online platforms to enhance booking and search functionality and provide our customers with inspirational content to showcase our products. Our specialist businesses are making good progress in consolidating their finance and reservation systems to leverage our scale across multiple brands and continue on their journey of standardisation while balancing the varied requirements of the different holiday experiences they offer.

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

Our Accommodation Wholesaler business (Hotelbeds and Bedsonline) is a market leader operating in the B2B segment with a global distribution presence. We have a clear strategy of consolidating our market-leading position even further by continuing to grow our existing destinations whilst accelerating our expansion into new markets with particular focus on Asia, Latin America and Africa. The total Online Accommodation market accounts for £87bn of global travel spend, with the Accommodation Wholesaler market accounting for £17bn of this spend.

Accommodation Wholesaler continues to consolidate its global leadership position, delivering TTV growth of 23% to £1,655m during the year with a strong performance from Asia and Latin America. Roomnights grew by 16% to 19.3 million during 2013, with hotel inventory also increasing by 16% to 62,000 hotels. Accommodation Wholesaler delivered a 28% growth in underlying operating profit during the year at constant currency rates.

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 through AsiaRooms.com across Asia and in Brazil with MalaPronta, Brazil's fourth largest accommodation-only OTA.

Accommodation OTA TTV declined by 6% to £422m during the year. This decline was driven by a delay in migration to a new online platform for LateRooms. The new platforms are now in place, delivering an improved user experience. LateRooms continues to benefit from strong brand recognition and SEO (search engine optimisation) visibility. On the mobile front, we designed and delivered mobile-optimised websites for LateRooms, AsiaRooms and Malapronta as well as making a number of significant improvements to the LateRooms and AsiaRooms apps.

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.

During the year, we generated record cash flow with free cash improvement of £122m to £427m. Underlying ROIC has improved again this year by 2.6 percentage points to 14.8%. This increase was driven by the strong improvement in earnings during the year. We generated a cash conversion rate of 90% in 2013, up by 12 percentage points. We continue to target a cash conversion rate of at least 70% going forward.

We have been successful in implementing our Group-wide business improvement programmes this year. The total savings made this year equates to £46m, an acceleration of the target outlined at the start of year. These cost savings were primarily driven by back office restructuring and IT platform replacement across a number of markets.

Our drive to improve efficiency does not stop here. Our One Mainstream platform is already in place and yielding tangible benefits. The move from multiple platforms to one core platform is a key driver of efficiencies going forward.

Segmental performance

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

Mainstream

The Mainstream sector reported an underlying operating profit of £514m (2012: £420m). On a constant currency basis, underlying operating profit increased by 16% to £486m.

	2013	2012	Change
Customers ('000)			
UK	**5,232**	5,158	+1%
Nordics	**1,600**	1,502	+7%
Germany	**6,001**	6,425	-7%
France	**1,585**	1,956	-19%
Other	**5,093**	5,068	+1%
Total	**19,511**	20,109	-3%
Revenue (£m)			
UK	**3,879**	3,634	+7%
Nordics	**1,223**	1,084	+13%
Germany	**4,161**	3,917	+6%
France	**1,077**	1,263	-15%
Other	**2,528**	2,420	+4%
Total	**12,868**	12,318	+4%
Underlying operating profit/(loss) (£m)			
UK	**251**	197	+27%
Nordics	**79**	71	+11%
Germany	**113**	87	+30%
France	**(60)**	(47)	-28%
Other	**131**	112	+17%
Total	**514**	420	+22%
Mainstream key performance indicators (%)			
Unique mix	**69**	65	+4pp
Customer satisfaction – key source markets	**79**	77	+2pp
Direct distribution mix	**66**	65	+1pp
Online mix	**35**	33	+2pp
Overheads % of revenue	**4.6**	5.2	-0.6pp

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

£m	UK	Nordics	Germany	France	Other	Mainstream
2012	197	71	87	(47)	112	420
Trading	+48	+5	+6	(28)	+3	+34
French contract write-offs	–	–	–	(11)	–	(11)
Business improvement	+6	–	+9	+23	+5	+43
2013 at constant currency	**251**	**76**	**102**	**(63)**	**120**	**486**
FX translation	–	3	11	3	11	28
2013	**251**	**79**	**113**	**(60)**	**131**	**514**

£514m

Mainstream Sector underlying operating profit (2012: £420m)

TUIFLY NAMED MOST CLIMATE-EFFICIENT AIRLINE

In atmosfair's 2013 Airline Index, TUIfly was named the world's 'Most Climate Efficient Charter Airline' for the second year in a row. It was also named the world's 'Most Climate-Efficient airline with over 1 million passengers'. This came as the airline reduced average fuel consumption per passenger to a record low of 2.6 litres per 100km-35% lower than the average German airline.

Segmental performance
continued

UK

Key Performance Indicators	2013	2012	Change %pts
Unique mix	**83**	79	+4pp
Direct distribution mix	**89**	87	+2pp
Online mix	**47**	44	+3pp

The UK business delivered a £54m improvement in underlying operating profit to £251m during the year. This translates to an operating margin of 6.5%, a 110 basis point improvement over the prior year. This record result was driven by strong load factors, focus on higher margin unique holidays increasingly distributed online and a 5% increase in package volumes during the year.

Demand for our unique holidays remained strong over the period, accounting for 83% of departures, up four percentage points on the prior year. We expanded a number of unique holiday products over the Summer season, driven by customer demand, including Couples, Splash and Sensatori concepts. The result also benefited from a two percentage point increase in direct distribution to 89% compared with the prior year. Online bookings accounted for 47% of all bookings, up three percentage points year-on-year. As part of our mobile strategy, we launched the MyThomson app into the Apple App Store in June with high ratings and over 180,000 downloads to date.

The UK business delivered £6m of efficiency savings towards the business improvement programme in the period.

Nordics

Key Performance Indicators	2013	2012	Change %pts
Unique mix	**93**	92	+1pp
Direct distribution mix	**89**	87	+2pp
Online mix	**67**	65	+2pp

Nordics achieved an underlying operating profit of £79m (2012: £71m). This improved position was driven by strong trading in the tour operator, a non-repeat of the flooding in Bangkok which adversely affected the result last year and 8% increase in package volumes during the year. The Nordic business maintained a strong underlying operating margin of 6.5%.

Unique holidays accounted for 93% of departures, broadly in line with the prior year but masking a shift to higher margin concept hotels within this mix. In particular, there was strong demand for our Blue Couples and Blue Star concepts. Direct distribution increased by two percentage points to 89%. Online distribution continues to grow, standing at 67% of bookings, up two percentage points over the prior year.

Germany

Key Performance Indicators	2013	2012	Change %pts
Unique mix	**51**	47	+4pp
Direct distribution mix	**36**	34	+2pp
Online mix	**8**	4	+4pp

Germany reported a strong underlying operating profit up by £26m to £113m (2012: £87m). Long-haul performed particularly well, with strong demand to Thailand, USA and Cuba. Whilst overall package volumes were flat during the year, primarily due to a re-focused programme, unique holidays saw year-on-year growth. The operating margin for the German business increased by 50 basis points to 2.7% in 2013, driven by higher margins in Greece in particular following the Euro crisis during 2012.

Unique holidays accounted for 51% of departures, up four percentage points over the prior year. Demand has been driven by the Robinson and Sensimar brands, and our new TUI Reisewelten labels (Beach, Classic, Lifestyle, Nature, Premium and Scene), which have been well received by our customers.

We continue to implement our strategy to improve direct distribution with a focus on online via our TUI.com website. Direct distribution stands at 36%, an increase of two percentage points over the prior year. On the retail side, we intend to roll out TUI branding across the majority of our owned and franchised shops. Online continues to grow and stood at 8% of bookings in 2013, up by four percentage points from the prior year. A key focus remains mobile optimisation and following the year-end we have launched the Meine TUI app in Germany. This is the adapted version of the MyThomson digital assistant app that launched in the UK earlier this year. We expect to roll out the app across other source markets during 2014.

The German business delivered £9m of efficiency savings towards the business improvement programme in the period. Restructuring will continue to focus on simplifying the corporate structure through the 2014 financial year.

France

Key Performance Indicators	2013	2012	Change %pts
Unique mix	**81**	74	+7pp
Direct distribution mix	**56**	59	-3pp
Online mix	**18**	21	-3pp

France reported an underlying operating loss of £60m (2012: loss of £47m).

The higher loss versus last year was driven by the tour operator, which continued to be impacted by low demand for North Africa and general weakness in the French economy. As a result, we have reduced our loss-making long-haul programme, removed unprofitable routes and destinations from the portfolio as well as providing for £11m of onerous French hotel contracts.

The French tour operator delivered £11m of efficiency savings towards the business improvement programme in the period. We implemented further restructuring in the French business towards the end of the year to streamline our back-office and retail functions in light of a continuing adverse trading environment. An additional £19m of restructuring costs was recognised in the 2013 income statement as separately disclosed items and we expect the cash impact for this to be spread over the next two years. The combination of shop closures and head-count reductions will deliver a further £15m cost reduction by 2017.

The Airline result significantly improved from the prior year, moving very close to a breakeven position. The turnaround was driven by changes to the fleet composition, which saw two new A330-300 aircraft arriving during the period. A smaller, more flexible fleet will help to reduce risk within the programme. In addition to this, significant improvements were made to the customer experience with increased customer service standards. The restructuring programme in the French airline is now complete, with £12m of efficiency savings towards the business improvement programme delivered in the period.

Underlying operating loss (£m)	2013	2012	Change %pts
Tour Operator	**(59)**	(32)	-84%
Airline	**(1)**	(15)	+93%
	(60)	(47)	-28%

Other

The Other source markets generated operating profit growth of 17% to £131m (2012: £112m), driven by a strong performance from our Canadian associate and the Belgian business.

The Belgian business, incorporating Jet4You, delivered £2m of efficiency savings towards the business improvement programme in the period. The Polish business delivered £3m of efficiency savings towards the business improvement programme, leading to a profitable overall performance during the period.

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

Emerging Markets

Emerging Markets reported an underlying operating loss of £12m in the year (2012: loss of £15m). The result for this sector reflects our continued investment in brand and distribution in Russia and the CIS, both of which were also impacted by the continued unrest in Egypt.

Emerging Markets (share of JV)	2013	2012	Change %
Underlying operating profit (£m)	**(12)**	(15)	+20

Accommodation & Destinations

Accommodation & Destinations (A&D) delivered an underlying operating profit of £78m (2012: £66m). This reflects £10m growth in Accommodation Wholesaler and £4m positive impact of foreign currency translation.

TTV for the Sector increased by 11% to £3.1bn (2012: £2.8bn). This was primarily driven by growth in Hotelbeds and Bedsonline in Accommodation Wholesaler and by our cruise handling business, Intercruises.

Accommodation & Destinations	2013	2012	Change %
Key performance indicators			
Accommodation Wholesaler roomnights (Online)			+16
Accommodation OTA traffic (Online)			+7
Accommodation OTA roomnights (Online)			-6
Incoming passenger volumes			+7
Revenue (£m)	**750**	664	+13
Underlying operating profit (£m)			
Online Accommodation	**40**	35	+14
Inbound Services	**38**	31	+23
Total	**78**	66	+18

The main drivers of the year-on-year change in underlying operating profit are summarised in the table below:

£m	Online Accommodation	Inbound Services	Accommodation & Destinations
2012	35	31	66
Trading	–	+5	+5
Accommodation Wholesaler	+10	–	+10
Accommodation OTA	-7	–	-7
2013 at constant currency	**38**	**36**	**74**
FX translation	+2	+2	+4
2013	**40**	**38**	**78**

PROTECTING BIODIVERSITY IN THE DOMINICAN REPUBLIC

The Accommodation & Destinations Sector is working with The Nature Conservancy to preserve the Del Este National Park in the Dominican Republic. The Sector works closely with excursion suppliers to ensure they are using cleaner engines, avoiding reef damage and minimising waste from tourism. This partnership works with both private and public sector stakeholders to manage and preserve the National Park, as well as meeting government ministers to influence the sustainable management of the area.

Segmental performance
continued

Online Accommodation

The Online Accommodation business delivered underlying operating profit of £40m (2012: £35m), reflecting a strong underlying performance in Accommodation Wholesaler as well as the expansion in Asia for our OTA business and investment in our recent Brazilian OTA acquisition, Malapronta. TTV for Online Accommodation grew by 17% to £2.1bn and roomnights increased by 10% primarily due to strong organic growth from our Accommodation Wholesaler brands (Hotelbeds and Bedsonline).

Accommodation Wholesaler continues to consolidate its global leadership position, delivering TTV growth of 23% to £1,655m during the year with a strong performance from Asia and Latin America. Roomnights grew by 16% to 19.3 million during 2013, with hotel inventory also increasing by 16% to 62,000 hotels. Accommodation Wholesaler delivered a 28% growth in underlying operating profit during the year.

Accommodation OTA TTV declined by 6% to £422m during the year. This decline was driven by a delay in migration to a new online platform for LateRooms. The new platforms are now in place, delivering an improved user experience. LateRooms continues to benefit from strong brand recognition and SEO visibility. On the mobile front, we designed and delivered mobile-optimised websites for LateRooms, AsiaRooms and Malapronta as well as making a number of significant improvements to the LateRooms and AsiaRooms apps.

Inbound Services

The Inbound Services business delivered underlying operating profit of £38m (2012: £31m). This was driven by a good underlying performance from the business, £2m positive translation impact, and by a reallocation of overhead costs from the Accommodation & Destinations sector to the Emerging Markets sector.

Incoming passenger volumes increased by 7% over the prior year. In cruise handling, the number of port calls handled increased by 8%.

Specialist & Activity

Specialist & Activity reported a profit of £41m (2012: £48m) reflecting the exit of a number of unprofitable lines of business, tough comparatives in the Sports business and higher costs in our Marine business. However, this lower result was partially offset by strong margins in our Ski business as well as improved trading in the Adventure business.

During the year, the Specialist & Activity Sector underwent a period of restructuring where we reduced central and back-office costs across the business. Some of this restructuring cost was absorbed into the underlying 2013 sector result. This restructuring is now largely complete and the business is on track to deliver growth in 2014 as set out in our road map.

Specialist & Activity	2013	2012	Change %
Customers ('000)	**1,403**	1,586	-12
Revenue (£m)	**1,433**	1,478	-3
Underlying operating profit (£m)[1]	**41**	48	-15

The Specialist & Activity Sector delivered £3m of efficiency savings towards the business improvement programme in the period.

1 Underlying operating profit excludes separately disclosed items, amortisation of business combination intangibles, acquisition related expenses, impairment of goodwill and available for sale financial assets and interest and taxation of results of the Group's joint ventures and associates.

I-TO-I: FOOTBALL COACHING IN BRAZIL

This year, i-to-i launched a football coaching voluntourism project in Brazil. As well as teaching football, volunteers mentor disadvantaged children aged 6 to 18 years old to help them build life skills and confidence, supporting 60 children in 2013. The project was founded by former professional and semi-professional football players whose lives have benefitted from football and who have discovered a healthier way of living by participating in sports.

+17%
Growth in TTV in Online Accommodation in 2013, compared to 2012

Current trading and outlook

Winter 2013/14

Performance for Winter 2013/14 is in line with our expectations. To date 60% of the overall Mainstream Winter programme has been sold. As a result of the unrest in Egypt we have actively remixed the programme and reduced our capacity to Egypt, which now accounts for less than 5% of the total programme. All markets now have their Egypt programmes back on sale, however, demand is lower than last year. Overall Mainstream bookings excluding Egypt are down by 4%, with average selling prices up 5%. In Germany, bookings are down 9% excluding Egypt, with the majority of this decline relating to the high volume but lower margin overland programme, whilst our core unique package holiday offering continues to deliver in line with expectations.

Trading in Specialist & Activity is in line with expectations, whilst the Accommodation Wholesaler continues to grow strongly with TTV up by 24%, driven by the Latin American and Asian markets.

Current Trading[1]

	Winter 2013/14				
YoY variation%	Total ASP[2]	Total Sales[2]	Total Customers[2]	Total Customers[2] exc. Egypt	Programme sold (%)
Mainstream					
UK	+6	+2	-4	+1	52
Nordics	-1	-3	-2	+9	73
Germany	+6	-4	-10	-9	58
France tour operators	+15	-27	-37	-33	70
Other[3]	+3	-1	-4	Flat	
Total Mainstream	+5	-4	-8	-4	60
Total Mainstream (excl France tour operators)	+4	-2	-6	-2	
Accommodation Wholesaler[4]	+1	+24	+23		

1 These statistics are up to 1 December 2013 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

Summer 2014

For Summer 2014, we are pleased with early trading, despite facing strong comparatives from the prior year, and continue to see strong demand for our unique holidays. To date, approximately 13% of the overall Mainstream Summer programme has been sold. We currently expect capacity for our Summer 2014 programme to be in line with last year, although we have the flexibility in our model to make strategic capacity changes on select high-margin opportunities. Our restructured Specialist & Activity business has had a good start to the year, whilst Accommodation Wholesaler continues to see double-digit growth, driven by Asia and Latin America.

Fuel/Foreign exchange

We have hedged the majority of our fuel and currency requirements for the seasons currently on sale, which 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.

As at 5 December 2013	Winter 2013/14	Summer 2014
Euro	91%	74%
US Dollars	93%	86%
Jet Fuel	89%	78%

Outlook

Overall, we are pleased with trading at the start of our new financial year. Winter 2013/14 performance is in line with expectations with 60% of the programme sold. For Summer 2014, we are encouraged by early trading despite strong comparatives. In particular, we continue to see strong demand for our unique holidays. Our Accommodation Wholesaler business is seeing sustained double-digit growth, driven by Asia and Latin America, whilst our restructured Specialist & Activity business has had a good start to the year and is on track to deliver growth as set out in our road-map. At this stage, we continue to expect to hold our Winter loss and deliver a H1 result broadly in line with last year, excluding the timing of Easter which falls in the second half of the year.

TUI Travel is structurally well positioned with a robust business model that gives us a long-term competitive advantage. The business continues to deliver sustainable growth through our unique holiday experiences, increasingly distributed online, whilst leveraging its scale as one organisation. This, in turn, will drive further value for both our customers and shareholders. Building on this year's outperformance where we have achieved a 13% underlying operating profit growth on a constant currency basis, we remain confident that we will deliver consistently on our five year annualised growth target of between 7% to 10% underlying operating profit growth at constant currency.

+60%
Overall Mainstream Winter programme sold (up to 1 December 2013)

+23%
Growth in Accommodation Wholesaler TTV, compared to 2012

Tax

The Group's approach to tax

The Group's approach to tax matters is to comply with all relevant tax laws and regulations, wherever we operate in the world, whilst managing our overall tax burden. We look to pay the right and fair amount of taxes in accordance with the letter and spirit of the laws in the countries in which we do business.

We consider the 'right' amount of tax as being in accordance with the letter of the law and the 'fair' amount of tax as being in accordance with the government policy intention for which the law was introduced.

Context

The effective tax rate on the Group's underlying profit before tax for 2013 was 27%. The Group paid cash income taxes of £110m. We consider the cash taxes that we pay to governments are an important source of revenue for them in providing a stable infrastructure and environment in which we operate our businesses.

The Group's businesses operate in 180 countries. This geographical diversity leads to considerable complexity in our tax affairs, and tax authorities around the world are subjecting the tax affairs of large companies to ever greater scrutiny. We look to manage our tax affairs in a manner to support our business operations with the aim of ensuring that the tax consequences of our business operations match with the economic and commercial consequences of those business operations. For example, we look to ensure that the same profits are not taxed twice by different countries, and that transactions between subsidiary and associate companies are conducted on arm's length terms and prices.

Where a tax rule, regulation or incentive exists that may convey a tax advantage to our operations, such as using losses incurred in prior years or tax depreciation from investing in our business, we will use that rule, regulation or incentive to support our businesses. In many countries, such rules operate automatically by law, for example, using UK losses incurred in prior years to offset current year UK taxable profits.

The Group uses the services of external, expert tax advisors to provide input into the Group's tax affairs, such as the management of compliance in some overseas jurisdictions and the impact of changes in tax legislation on the Group.

Tax governance

The Group's tax strategy is determined by the Board of Directors as a sub-set of the Group's overall business strategy and is approved annually by the Audit Committee. Operational responsibility for the execution of the Group's tax strategy rests with the Chief Financial Officer and the Group Tax Director who report the Group's tax position to the Audit Committee on a regular basis.

The Group Risk Management Committee considers tax risks that may arise as a result of our business operations, on a quarterly basis, through the Group's risk management framework. The consideration of such tax risks includes actions to mitigate the risks or to prevent their occurrence or recurrence.

The location of our businesses

TUI Travel operates across 31 key source markets. These source markets are 'home' to our tour operators and airlines. It is from these source markets that our 30 million customers wish to travel. Our inbound services companies and associates operate in key leisure travel destinations.

As a leisure travel group, we take people on holiday to some countries that have low or zero tax rates. This means that we may have subsidiary companies in such locations, for example, we have a legal entity in the British Virgin Islands which operates a yacht base for our Moorings business and is one of the island's largest employers. We also have legal entities in other Caribbean islands for the same purpose and for operating hotels that our customers visit.

Payment of taxes

In the year ended 30 September 2013, the Group paid corporate income taxes of £110m as per the table below:

The amounts shown below represent the corporate income tax, or corporation tax and cash tax payments made by the Group and its subsidiary companies during the year ended 30 September 2013. Different countries have different rules as to how companies should make payments of cash taxes with some requiring payments on account to be made during the current year or the immediately following year or a combination of these methods, whilst others may use the immediately preceding year as the basis for cash tax payments. Cash tax payments may be lower than the tax charge for the year due to the utilisation of brought forward tax losses against current year profits.

With regard to UK cash taxes, £14m is the corporation tax paid in the year ended 30 September 2013. This is lower than may be expected due to the utilisation of losses brought forward from earlier years and tax depreciation (UK capital allowances) resulting from investment in our UK business. We expect the amount of UK corporation tax to increase in future years as these brought forward losses reduce.

Relationships with tax authorities

We look to develop and maintain good working relationships with tax authorities in the countries in which we operate. We communicate with them in an open, honest and positive manner. Where it is possible to do so, we seek to discuss our major commercial transactions and their tax consequences and treatment with tax authorities in advance of their execution or seek an advance ruling of the tax consequences and treatment of such transactions in order to provide us with certainty of the tax treatment. We are committed to transparent and prompt full disclosure in all tax matters. We pay our tax liabilities when they become due.

We recognise that there will be areas of differing legal interpretations between the Group and tax authorities. Where this occurs, we will engage with tax authorities to try to resolve the matters in a co-operative and expedited manner. Where a conclusion cannot be reached in such a manner, the tax authority or the Group may choose to litigate the issue through the relevant legal system.

The Group reviews new tax law and regulations that governments around the world introduce from time to time. Where we believe that new laws would have a disproportionate or detrimental impact on the Group's businesses or require amendment to achieve the intention of the new law, we will lobby the relevant government, either in our own name or as part of a trade association, to explain the potential issues and to suggest alternatives.

PAYMENT OF TAXES

Territory	2013 £m	2012 £m
Australia	(2)	(1)
Belgium	21	12
Denmark	2	–
Dominican Republic	1	–
Finland	3	–
France	6	–
Germany	26	32
Greece	–	2
Mexico	2	3
Morocco	5	–
Netherlands	6	2
Norway	4	–
Portugal	1	–
Spain	12	17
Sweden	4	5
Turkey	–	2
United Kingdom	14	2
Others (payments less than £1m)	5	6
Total	**110**	**82**

Board of Directors

as at 30 September 2013

Friedrich Joussen
Non-Executive Chairman (Age 50) #

Friedrich Joussen joined the Board on 8 February 2013 as a Non-Executive Director and was appointed Non-Executive Chairman on 25 March 2013. He was appointed a member of the Executive Board of TUI AG on 15 October 2012 and took over as Chief Executive Officer of TUI AG on 13 February 2013. From 2005 to September 2012, he was Chief Executive Officer of Vodafone Germany, the largest operating company in the Vodafone Group. Friedrich joined Mannesmann Mobilfunk GmbH in 1988 and held various positions in the newly-founded Mannesmann Mobilfunk, including Marketing Director, between 1997 and 2000. When the Mannesmann Group was taken over by Vodafone, he was appointed Director of Global Product Management at the Vodafone Group in Newbury (UK). He has a Master of Science in electrical engineering from RWTH Aachen University and has registered several patents. Friedrich was a key contributor to the introduction of SMS in the German mobile market and is considered the creative architect behind the development and marketing of the mobile portal 'Vodafone Live'.

Sir Michael Hodgkinson † • *
Non-Executive Deputy Chairman and Senior Independent Director (Age 69)

Sir Michael Hodgkinson joined the Board of First Choice Holidays PLC (First Choice) as a Non-Executive Director in January 2004 and became Chairman in March 2004. He joined the Board of TUI Travel PLC on 28 June 2007 as Non-Executive Deputy Chairman and is the Senior Independent Director. Following an early career in the automotive industry, he was appointed Chief Executive of Grand Metropolitan's European Food Division in 1986 and, in 1992, he joined BAA plc and became Chief Executive in 1999, a post from which he retired in June 2003. Sir Michael was Senior Non-Executive Director at Royal Mail and Chairman of Post Office Limited until September 2007, a Director of Bank of Ireland plc from May 2004 until July 2006, a Non-Executive Director of Dublin Airport until November 2011 and a Non-Executive Director of Transport for London and Crossrail Limited until June 2012. He has been Chairman of Keolis (UK) Limited since 11 October 2011.

Peter Long
Chief Executive (Age 61)

Peter Long joined the Board on 28 June 2007 as Chief Executive. In November 1996 he was appointed Group Managing Director of First Choice and became Chief Executive in September 1999. Prior to joining First Choice, he was Chief Executive of Sunworld Holidays. From February 2001 to June 2005 Peter was a non-executive director of RAC plc, and from April 2006 to July 2009 he was a non-executive director of Debenhams plc. He was appointed as a Non-Executive Director of Rentokil Initial Plc in 2005 and is currently the Senior Independent Non-Executive Director. In October 2013, Peter was appointed President of the Family Holiday Association, a UK-based charity which provides short breaks away from home for more than 2,000 disadvantaged families.

Johan Lundgren
Deputy Chief Executive (Age 46)

Having worked in the tourism industry for 27 years, Johan is the Deputy Chief Executive responsible for the Mainstream Sector and was appointed to the Board on 21 December 2007. Prior to his appointment as Deputy Chief Executive in October 2011, he was Managing Director of the Northern Region of TUI Travel's Mainstream Sector which includes the Source Markets UK and Ireland, Canada, Sweden, Norway, Denmark and Finland. Prior to the merger in 2007, Johan was Chief Executive of TUI Nordic and also took responsibility for tourism sales in the source markets of Italy and Russia.

William Waggott
Chief Financial Officer (Age 50)

William Waggott joined the Board on 28 June 2007 as Commercial Director. He was appointed Chief Financial Officer of TUI Travel PLC in November 2010. Will spent the early part of his career with Coopers & Lybrand and Courtaulds Textiles plc, where he performed various senior group finance and divisional director roles. He entered the leisure travel industry when he joined Airtours plc and held a number of positions including UK leisure group finance director, prior to joining Thomson Travel Group in 2001. He went on to become Chief Financial Officer of TUI Tourism in 2006.

Dr Volker Böttcher
Managing Director, German Specialist Businesses (Age 54)

Volker Böttcher joined the Board on 19 June 2007. After an early career in law, Volker joined Touristik Union International in 1987 as a legal adviser. Having occupied various management positions, he became head of TUI's Special Programmes Division in 1996 which included responsibility for long-haul destinations, city tours and the Eastern Mediterranean. He was appointed to the board of TUI Deutschland GmbH in April 2000. Following the restructuring of TUI's business model in Germany, he was appointed CEO of TUI Deutschland GmbH in July 2001. In 2003 Volker was appointed Chairman for Central Europe for TUI AG, being responsible for all tourism activities in the source markets of Germany, Austria, Switzerland and Poland. After the reorganisation of the Mainstream Sector in 2012, Volker was appointed Managing Director for German Specialist Businesses and source markets Austria, Poland and Switzerland.

Horst Baier
Non-Executive Director (Age 56)

Horst Baier joined the Board as a Non-Executive Director on 13 October 2009. He commenced his professional career in the Treasury Department of Continental AG, the German tyre manufacturer. Between 1994 and 1996 Horst was responsible for Group Financing for the Furth-based Schickedanz Group. In 1996, he took over responsibility for the Treasury, Accounting and Tax Department at TUI AG. Since 2001, Horst has been responsible for Accounting & Reporting for TUI AG and, in November 2007, was appointed to the Executive Board of TUI AG with responsibility for the Controlling function. In February 2010, Horst was appointed Chief Financial Officer of TUI AG.

Tony Campbell
Independent Non-Executive Director (Age 63)

Tony Campbell became a Non-Executive Director of First Choice in April 1997 and joined the Board of TUI Travel PLC on 28 June 2007 as a Non-Executive Director. Tony was Deputy Chief Executive of Asda Stores Limited until March 2001. He is currently the Chairman of T M Lewin Group Limited, The White Company (UK) Limited, a non-executive director of The Original Factory Shop and a Director of Data Transfer & Communications Limited.

Sebastian Ebel
Non-Executive Director (Age 50)

Sebastian Ebel joined the Board on 25 March 2013 as a Non-Executive Director following his appointment as Operating Performance Director of TUI AG on 1 February 2013. In May 2013, he was appointed Chief Operating Officer of TUI AG. Sebastian started his professional career at Salzgitter AG in a strategic role. Between 1991 and 1997 he worked in various roles in the Preussag Group and left his position as Director of Group Control at the Preussag AG head office to join VIAG AG in Munich as head of telecommunications. Sebastian returned to Preussag (now TUI AG) in 1998 as a member of the Executive Committee and joined the Executive Board in 2003. He left TUI AG in 2006 and founded Eves Information Technology AG and Eves Unternehmensberatung GmbH over the following two years. In 2008 Sebastian joined the A.T.U. Group as Chief Financial Officer and subsequently as Chief Operating Officer. From 2011 to 2013 he worked for Vodafone Deutschland as Chief Financial Officer.

Janis Kong
Independent Non-Executive Director (Age 62) • *

Janis Kong joined the Board on 29 May 2012 as a Non-Executive Director. Janis brings a wealth of experience to the Group having had a 33-year career with BAA where she held numerous operational positions including Managing Director at Gatwick Airport. Before leaving BAA in 2006, Janis was Chairman of Heathrow Airport Limited for five years as well as the Chairman of Heathrow Express. She is also currently a non-executive director at two other publicly-quoted companies, Kingfisher PLC and Portmeirion Group PLC. In addition, Janis is a non-executive director of Network Rail and VisitBritain as well as a non-executive Board member of Copenhagen Airports A/S. She stood down as Chairman of the Board of Trustees of Forum for the Future in July 2012 after six years.

Coline McConville
Independent Non-Executive Director (Age 49) ∞ *

Coline McConville joined the Board on 21 September 2011. Her background is in management, marketing, media and strategic consulting. She spent 10 years at Clear Channel International Limited where, as Chief Executive for Europe, she was responsible for operations across 58 countries including the UK, France, Italy and Spain. Coline began her career in management consultancy, working with both McKinsey & Co in London and the LEK Partnership in Munich. She is a law graduate with an MBA from Harvard. Coline was appointed as a non-executive director of Wembley National Stadium Limited on 29 March 2012 and of UTV Media PLC with effect from 21 November 2012.

Minnow Powell
Independent Non-Executive Director (Age 59) ◊ #

Minnow Powell, a Chartered Accountant, became a Non-Executive Director in April 2011. During his 35 years at Deloitte, he became a senior partner and concentrated on looking after Deloitte's major clients including BAA, Hammerson, Reed Elsevier, Anglo American and BSkyB. He was also a member of the UK's Audit Practices Board for six years. Minnow was appointed as a non-executive director of SuperGroup plc with effect from 1 December 2012 and now chairs that company's Audit Committee.

Dr Erhard Schipporeit
Independent Non-Executive Director (Age 64)

Dr Erhard Schipporeit joined the Board as a Non-Executive Director on 29 October 2007. He started his career in 1979 in the Bosch Group and in 1981 he joined VARTA AG/VARTA Battery AG, at that time a leading European battery company, where he became Chief Financial Officer in 1990 and Chief Executive & Chairman of the Executive Board in 1993. After the successful restructuring of VARTA, the next move in his career brought him to the Munich-based conglomerate company VIAG AG as CFO. VIAG merged in 2000 with VEBA AG to form the new E.ON AG, one of the world's leading utility companies. Erhard was CFO and Executive Board Member of E.ON from 2000 until his resignation in November 2006. From 2007 to 2010 he was Senior Advisor for BNP Paribas SA. Erhard is currently a non-executive director of a number of companies including SAP AG, Deutsche Boerse AG, Talanx AG and Hanover Rueckversicherung AG.

Dr Albert Schunk
Independent Non-Executive Director (Aged 72)

Dr Albert Schunk joined the Board as a Non-Executive Director on 29 October 2007. Albert studied economics at university and carried out a research project for the German Government in Latin America. After joining IG-Metall, he has served on the supervisory board of Volkswagen and other German companies since 1976. In 1994 he became a member of the European Economic and Social Council in Brussels and has recently been advising the Riu Group in Spain.

Harold Sher
Independent Non-Executive Director (Age 66) #

Harold Sher joined the Board as a Non-Executive Director on 29 October 2007. He studied commerce at university and started his career as a Chartered Accountant. Harold moved to industry early in his career, holding a range of executive positions before being appointed Chief Executive of Amalgamated Metal Corporation PLC in 1992, a position he still holds. He has served as president of a major North American Steel Services Group and, together with his role at Amalgamated Metal Corporation, this has provided him with broad international commercial experience.

† Nomination Committee Chairman
 # A member of the Nomination Committee
∞ Remuneration Committee Chairman
• A member of the Remuneration Committee
◊ Audit Committee Chairman
*** A member of the Audit Committee**

OUR BOARD

(from left to right, as at 9 December 2013)

Friedrich Joussen
Sir Michael Hodgkinson
Peter Long
Johan Lundgren
William Waggott
Dr Volker Böttcher
Horst Baier
Tony Campbell
Sebastian Ebel
Janis Kong
Coline McConville
Minnow Powell
Dr Erhard Schipporeit
Dr Albert Schunk
Harold Sher

DIRECTORS' REPORT

Corporate Governance report

Chairman's introduction

The Board of TUI Travel PLC believes its effectiveness, and that of the Group, should be underpinned by a strong corporate governance framework. We have put in place robust and efficient governance systems throughout the Group and, within this framework, have worked hard to establish and embed procedures and processes throughout all our operations.

The Board's main role is to work alongside the executive team to give support and advice but also to provide challenge, where appropriate, in order to drive continued and sustained improvement across all our businesses.

While we evaluate our performance and effectiveness formally as a Board each year, we ensure this is a continuing process so that we are able to react quickly in the fast-changing environment in which we operate.

We believe the Board is well balanced with a broad range of skills and a deep understanding of the challenges which face us now and in the future. We have made good progress across the governance agenda, some of which is highlighted in the following pages. During 2014, we will continue to review proactively the business decisions made and the governance framework in which we operate.

Friedrich Joussen
Chairman

Compliance – UK Corporate Governance Code Provisions

The Company has complied with all relevant provisions of The UK Corporate Governance Code (September 2012) (the "Code") except in respect of Code Provision A3.1 – the Chairman should on appointment meet the independence criteria set out in Code A3.1 (see page 70).

Leadership

For Audit Committee Report see page 73, Nomination Committee Report see page 78 and Remuneration Committee Report see page 79.

Board procedures/responsibilities

The Board's primary responsibility is to promote the long-term success of the Company by creating and delivering sustainable shareholder value. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight and direction to the management team. The Board considers the impact of its decisions on wider stakeholders including employees, suppliers and the environment.

The Board meets regularly, including visits to operational locations, and is responsible for the overall leadership, strategy and control of the Group. A full schedule of matters reserved for the Board's decision, along with the terms of reference of the Board's key committees and the individual roles of Board members can be found online at www.tuitravelplc.com and will be available for inspection at the AGM. The schedule of matters includes:

- determining the strategy of the Group;
- amendments to the structure and capital of the Group;
- approval of financial reporting;
- oversight of the Group's internal controls;
- approval of capital and revenue expenditure of a significant size;
- acquisitions, disposals and share dealings;
- Board membership and appointments;
- approval of remuneration of Directors and certain senior management;
- corporate governance matters; and
- approval of Group policies and risk management strategies.

The Board has overall responsibility for ensuring the effectiveness of the Group's system of internal control and risk management framework and this has been developed in accordance with the Code. This system of control is designed to manage and mitigate rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls – which include financial, operational and compliance controls – and risk management can only provide reasonable, and not absolute, assurance against material loss.

The role of management is to implement Board policies on risk and control and the Board has delegated the day-to-day management of the Company to the Chief Executive and, through him, to the other Executive Directors and members of the Group Management Board (GMB). For information on the GMB see 'Our People' on pages 34 and 35.

Board governance structure

THE BOARD OF TUI TRAVEL PLC		
AUDIT COMMITTEE	**REMUNERATION COMMITTEE**	**NOMINATION COMMITTEE**
Delegated authorities: Monitors the integrity of our financial reporting, the performance of the internal audit function and of the external auditor and reviews the effectiveness of the Group's systems of internal control and related compliance activities.	**Delegated authorities:** Sets remuneration and incentives for the Executive Directors; approves and monitors remuneration and incentive plans for the Group; and assesses and makes recommendations to the Board on the policy on executive remuneration.	**Delegated authorities:** Ensures that the Board and its Committees has the optimum balance of skills, knowledge and experience by nominating suitable candidates for approval by the Board to fill executive and non-executive vacancies.
Members: Minnow Powell – *Chairman* Sir Michael Hodgkinson Janis Kong Coline McConville	**Members:** Coline McConville – *Chairman* Janis Kong Sir Michael Hodgkinson	**Members:** Sir Michael Hodgkinson – *Chairman* Friedrich Joussen Minnow Powell Harold Sher

The key elements of the control framework and review processes in place across the Group are as follows:

- The Board sets corporate strategy and business objectives. The GMB and Sector management integrate these objectives into their operational and financial business plans.
- The GMB meets regularly, together with other senior executives, to consider Group operational and financial performance and business development. The Chief Executive reports to the Board on behalf of the GMB on significant changes in the business and the external environment. The Chief Financial Officer provides the Board with financial information which includes key performance and risk indicators.
- The Group operates a risk management process which is integrated within the short and long-term business planning processes (see page 42).
- The Treasury position of the Group, including cash, foreign exchange and fuel hedging exposure, is managed centrally in accordance with policies appropriate for each Sector and is the responsibility of the Chief Financial Officer and Group Treasurer.
- Financial forecasts, providing predicted results with sensitivity analysis, are prepared routinely throughout the year for review by the GMB and the Board. These forecasts also include details of the Group's ongoing compliance with its regulatory and banking requirements.
- The Group has established investment appraisal and authorisation procedures and its capital expenditure is reviewed against budgets which have been approved by the Board.
- The Group also routinely assesses the capability of its people to deliver the business objectives set and responds accordingly. This is supported by the three lines of defence (see page 42).

Processes are in place to ensure appropriate action is taken where necessary to remedy any deficiencies identified through the Group's internal control and risk management processes (see page 42).

The Audit Committee, on behalf of the Board, has reviewed the effectiveness of internal controls during the year and confirms that:

- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group;
- this has been in place for the year under review and up to the date of approval of the Annual Report and Accounts;
- the process is regularly reviewed by the Board; and
- the process accords with the Code.

In addition, the Board also reviewed the effectiveness of the risk management process.

The division of responsibilities between the Chairman and Chief Executive is clearly established, has been agreed by the Board and is reviewed by the Company Secretary on a regular basis. The Board approves any necessary amendments to reflect changes in legislation, policy and practices.

All Directors have access to the advice and services of the Company Secretary and can take independent professional advice, if necessary, at the Company's expense. To the Company Secretary's knowledge, no such advice was sought by any Director during the year.

The Company Secretary is responsible for ensuring Board procedures are followed, including the formal minuting of any unresolved concerns that any Director may have in connection with the operation of the Company. During the year there were no such unresolved issues.

Following the introduction of a secure iPad-based paperless meeting system in 2012, its successful roll-out has progressively resulted in the replacement of hard copy packs with electronic versions. Paperless meetings are now the norm, not only for the TUI Travel PLC Board and its Committees, the Group Management Board and Sector Board meetings but also many other business meetings being held on a daily basis throughout the Group. The ease with which the system has been adopted and cascaded across many different areas of the organisation has been better than we could ever have anticipated – this supports our online drive across the Group and is consistent with reducing the impact of our operations on the environment.

Attendance of Directors at meetings of the Board and its Committees

	Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Remuneration Committee Meetings
Friedrich Joussen[1] (Chairman)	6(6)	1(1)	–	–
Dr Michael Frenzel[2]	4(4)	–	–	3(3)
Sir Michael Hodgkinson (Senior Independent Director & Deputy Chairman)	9(9)	1(1)	10(10)	6(6)
Peter Long (Chief Executive)	9(9)	–	–	–
Johan Lundgren (Deputy Chief Executive)	8(9)	–	–	–
Executive Directors				
Dr Volker Böttcher (MD German Specialist Businesses)	9(9)	–	–	–
Will Waggott	9(9)	–	–	–
Independent Non-Executive Directors				
Tony Campbell	9(9)	–	–	–
Janis Kong	9(9)	–	10(10)	6(6)
Coline McConville	9(9)	–	10(10)	6(6)
Minnow Powell	9(9)	1(1)	10(10)	–
Erhard Schipporeit	6(9)	–	–	–
Dr Albert Schunk	9(9)	–	–	–
Harold Sher	9(9)	1(1)	–	–
Non-Executive Directors (not considered independent)				
Horst Baier	9(9)	–	–	–
Sebastian Ebel[3]	5(5)	–	–	–
Rainer Feuerhake[4]	3(3)	–	–	2(2)

Figures in brackets indicate the maximum number of meetings during the year in which the individual was a Board member.

Notes:

1 Appointed to the Board with effect from 8 February 2013.
2 Chairman of the Board until he retired on 25 March 2013.
3 Appointed to the Board with effect from 25 March 2013.
4 Non-Executive Director until he retired on 8 February 2013.

Dr Erhard Schipporeit was unable to attend three of the meetings of the Board as they conflicted with meetings already in his diary for listed companies in Germany. He is the Chairman of the Audit Committee for all three companies.

Meetings of the Non-Executive Directors

A meeting of the Non-Executive Directors took place in February 2013 with Sir Michael Hodgkinson in the Chair. The main focus of the meeting was to appraise Dr Frenzel (who was then the Chairman) and discuss general operational matters.

Two meetings have been scheduled for 2014 and others will be held as the need arises.

Corporate Governance report
continued

Company Secretary
As part of his retirement plan, and in line with the Company's succession planning, Andrew John has decided to step down from his role as Group Legal Director & Company Secretary. Andrew will continue in a new role within the organisation and will remain on the GMB during a 12-month transition period. With effect from 1 October 2013 there are two new appointments – Mike Bowers (formerly General Counsel, Mainstream Tour Operating) as Group Legal Director and Joyce Walter (formerly Deputy Company Secretary) as Company Secretary. Joyce is a Fellow of the Institute of Chartered Secretaries and Administrators and has been Deputy Company Secretary since the merger in 2007.

Effectiveness

Board composition
Our Board consists of 15 Directors – 13 of whom served throughout the year. At 30 September 2013, in addition to the Chairman, Friedrich Joussen, there were four Executive Directors and 10 Non-Executive Directors. Friedrich Joussen and Sebastian Ebel were appointed as Non-Executive Directors on 8 February and 25 March 2013 respectively. On 25 March 2013, Dr Michael Frenzel retired from his position as Non-Executive Chairman of the Board and was replaced by Friedrich Joussen.

Independence of Non-Executive Directors
The Chairman, Friedrich Joussen, did not comply with the independence criteria of the Code at the time of his appointment. This is because Mr Joussen is the Chief Executive of TUI AG – a 54.48% shareholder of the Company as at 30 September 2013.

Details of the Chairman's other significant commitments are given in his biography on page 66. He has no other external roles and the Board is confident that he has sufficient time to perform his duties as Chairman of the Company.

Of the other 10 Non-Executive Directors, Horst Baier and Sebastian Ebel are also not considered to be independent as they are both members of TUI AG's Executive Board.

The Non-Executive Directors considered to be independent are Sir Michael Hodgkinson, Tony Campbell, Janis Kong, Coline McConville, Minnow Powell, Dr Erhard Schipporeit, Dr Albert Schunk and Harold Sher.

The Board recognises that the Code requires that at least half the Board, excluding the Chairman, should be independent Non-Executive Directors and was compliant with provision B1.2 of the Code throughout the year ended 30 September 2013. The Board is committed to ensure that its membership is refreshed on a regular basis.

Skills and experience
Biographical details for each of the Directors are set out on page 66 and can also be found online at www.tuitravelplc.com.

The Directors have collective responsibility for the Company's direction. In particular Non-Executive Directors are responsible for:

- scrutinising and challenging performance across the Group's business;
- bringing wide-ranging skills and experience, including independent judgement on issues such as strategy, performance and risk management;
- assessing risk and the integrity of the financial information and controls; and
- constructively challenging the Chief Executive and Executive Directors.

In accordance with the Code, all Directors will be subject to annual re-election by shareholders. To enable shareholders to make an informed decision, the 2014 Notice of the Annual General Meeting (AGM) includes biographical details and a statement as to why the Company believes the Directors should be re-elected. The Chairman intends to confirm at the AGM that the performance of each individual continues to be effective and demonstrates commitment to the role.

The Board recommends to shareholders the re-appointment of all Directors retiring at the meeting on the basis that they are all effective Directors of the Company and demonstrate the appropriate level of commitment in their respective roles.

The terms of the Directors' service contracts are disclosed in the Remuneration Report commencing on page 79. Directors' interests in the shares of the Company are disclosed on page 93.

Directors' service contracts and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office and will be available at the AGM which is scheduled to take place on Thursday 6 February 2014.

Following the appointment of any new Director, the Chairman, in conjunction with the Company Secretary, ensures that a full, formal and tailored induction to the Company is made available. The Company Secretary is on hand to answer any questions which may arise. All Directors have been given a detailed induction and training manual. During the year, Friedrich Joussen and Sebastian Ebel have had detailed overviews on all the Sectors across the Group as part of their induction programme.

Directors' conflicts of interests
Under the Companies Act 2006, the Directors have a statutory duty to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. Directors of public companies may authorise conflicts and potential conflicts where appropriate, if the articles of association contain a provision to this effect.

The Board is aware of the other commitments of its Directors and is satisfied that these do not conflict with their duties as Directors of the Company. The process for monitoring conflicts is as follows:

- changes to the commitments of all Directors are reported to the Board;
- the Directors are required to complete a conflicts questionnaire on appointment and annually thereafter;
- any conflicts identified are presented to the Board for consideration and, as appropriate, authorised in accordance with the Companies Act and the articles of association; and
- Directors are responsible for notifying the Company Secretary if they become aware of any actual or potential conflict situations or a change in circumstances relating to an existing authorisation.

The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

Performance evaluation
Each year the performance of the Board and its Committees (Audit, Remuneration and Nomination) is evaluated. This year the evaluation was undertaken by an online survey and comprised a series of questions in relation to the running of, and business conducted at, Board meetings. The questions also covered the performance of individual Directors (including the Chairman of each Committee). Each Director was asked to place a score against the questions and the Directors were able to make additional comments where appropriate.

Every third year the evaluation is facilitated by an independent external advisor (which was the case last year) in accordance with the Code.

Summary reports were produced following analysis of the responses by broad category and by reference to a traffic-light system showing the number of red, amber and green scores. The Board and its Committees considered the reports of their effectiveness at their meetings in September 2013 and were satisfied with the overall scores. As a result of this year's evaluation, the Board intends to:

- enhance further its contribution to, and focus on, strategic planning;
- provide more opportunities for the Directors to meet with executives and senior managers to assist in succession planning; and
- continue to work towards ensuring that the composition of the Board reflects the diversity of the Company's employee base.

In the year ahead, the Board will continue to review its effectiveness and procedures.

Dr Michael Frenzel's performance as Chairman was reviewed in February 2013 (prior to his resignation in March 2013) and it was concluded that he managed meetings well and allowed full and open debate. As Friedrich Joussen is relatively new to his role as Non-Executive Chairman, it is intended that his first review will be undertaken in February 2014.

Accountability
The Directors' Responsibilities Statement can be found on page 102. The Business & Financial Review, the Audit Committee Report, Nomination Committee Report, Directors' and Remuneration Report can be found on pages 54 to 63, 73 to 77, 78 and 79 to 98 respectively.

Legal and regulatory compliance
A twice-yearly Legal & Regulatory Compliance self-certification process is in place, where all operational businesses across the Group certify their progress in benchmarking base-level to gold standard operational Legal & Regulatory controls against Group criteria in the areas of Anti-Bribery & Corruption (ABC), Competition, Data Protection and Health & Safety. Businesses answer detailed questions about their practices and provide extra information when required. Those responses inform a tailored, proactive and strategic approach to risk management. They are analysed, prioritised and used to monitor the progress of businesses in these vital areas.

87% of employees across the Group have undergone risk-focused, travel-industry specific training on their responsibilities under anti-bribery legislation. Updated ABC, Business Gifts & Hospitality and Investigation policies have been communicated. A Compliance intranet page has been created to give greater online visibility of our initiatives.

Our ABC due diligence around high-risk profile contracting has been improved during the year. We are proud of our new Supplier Code of Conduct detailing the Group's ethical and compliance expectations of suppliers. This is one of the first of its kind in our industry and has been in roll out to all our material suppliers since May 2013 (see Sustainable Development on page 26). Anti-Bribery responsibilities are now included in all new supplier contracts.

Group Audit Services administer a yearly Conflict of Interest declaration for 2,000 senior managers which will extend to new joiners in 2014.

Whistle-blowing
Whistle-blowing hotlines are now fully operational in the UK, USA, Canada, Germany, France, Switzerland, Poland, Belgium, Norway, Sweden, Finland, Denmark, Italy, Spain, Russia, Ukraine, Bulgaria, China, Hong Kong, India, Indonesia, Jamaica, Malaysia, Malta, Mauritius, Mexico, Peru, Portugal, Brazil, Singapore, South Africa, Turkey, Vietnam, and the British Virgin Islands.

This covers businesses in all major source and destination markets which have more than 50 employees. There is also a web-based whistle-blowing reporting service in Cape Verde, Cuba, Kenya, the Maldives and Tunisia. Austria is completing its Data Protection Authority's approval process and, excluding Austria, these confidential hotlines and webmail reporting facilities now cover 99% of Group Revenue.

Any matters arising from the use of the whistle-blowing channels are investigated as appropriate and a summary provided to the Audit Committee. The Legal & Regulatory Compliance Department works in conjunction with Group Audit Services to investigate and advise on any incidents around the Group.

The TUI Travel Code of Conduct makes it clear that employees can approach senior executives, or Group Audit Services, to make reports and emphasises that anyone making a report with honest intentions need not fear any adverse consequences even if the information provided proves to be unfounded.

Competition compliance
A comprehensive competition training, knowhow and support programme is in development to remind our senior management, purchasing teams and others of their obligations to foster healthy competition and protect against anti-competitive practice under EU and local legislation through the jurisdictions in which we do business. The training programme, which consists of face-to-face seminars for senior management, and e-learning for other colleagues, will be progressively rolled out during 2014 and will require them to re-affirm their commitment to leading responsibly and competing vigorously in all our markets.

Corporate Governance report
continued

Relations with shareholders

The Chief Executive, Chief Financial Officer and members of the Investor Relations' team hold regular meetings with major shareholders to review the Group's performance and prospects. The views of shareholders are communicated to all members of the Board following such meetings. During the course of these meetings the issue of governance is discussed. Presentations to major shareholders are made at least twice yearly, after the announcement of the interim and preliminary results, details of which, together with the Group's financial reports and other announcements, can be accessed via the Group's website www.tuitravelplc.com/investors-media.

The Code recommends that the Senior Independent Director meets with a range of major shareholders to gain an understanding of their views. Sir Michael Hodgkinson (Senior Independent Director) and Coline McConville (Chairman of the Remuneration Committee) held meetings with several major shareholders during October 2013. They also met with shareholders in October last year to explain the changes in the Committee membership and to discuss remuneration policy generally (see page 88 for further details).

As a result of the extensive investor feedback provided by the Chief Executive, the Chief Financial Officer, and those Non-Executive Directors who did meet with shareholders, the remaining Non-Executive Directors did not consider it necessary to meet with other major shareholders during the year. They believe that they are kept aware of all issues, which are fed back to them at Board meetings, and therefore additional meetings were not required. However, they have confirmed they would be happy to make themselves available if any shareholder requested such a meeting.

Regular updates are produced by the Company's brokers and circulated to the Board to keep them informed of market and industry views. The updates also include analyst views of TUI Travel's position in the market.

There is an opportunity for shareholders to question the Chairman and other Directors (including the Chairmen of the Audit, Remuneration and Nomination Committees) at the AGM. The AGM also provides a forum for the Non-Executive Directors to discuss the views of shareholders with them directly.

In respect of general meetings of the Company:

- the Company prepares separate resolutions on each substantially separate issue and does not combine resolutions together inappropriately;
- proxy appointment forms provide shareholders with the option to vote for, against or to withhold their vote. The proxy form makes it clear that a 'vote withheld' is not a vote in law and will not be counted;
- all postal proxy votes are returned to Equiniti (the Company's Registrar) which is responsible for ensuring votes are properly received and counted;
- proxy counts are displayed at the close of the AGM and the final poll results are posted on the Company's website www.tuitravelplc.com following closure of the meeting; and
- the Annual Report and Accounts is laid before shareholders at the AGM.

Audit Committee

Audit Committee

The Audit Committee comprised four independent Non-Executive Directors – Minnow Powell, Sir Michael Hodgkinson, Janis Kong and Coline McConville – throughout the year ended 30 September 2013 of whom at least one had recent and relevant financial experience in compliance with the Code provision C3.1.

The Chairman, Chief Executive, Chief Financial Officer, Director of Group Audit Services and the external auditor are invited to, and routinely attend, all meetings and other Non-Executive Directors may also attend.

Meetings

The Audit Committee met 10 times during the year – two of these meetings were specifically called to review and approve draft announcements, results and trading statements of the Company. The Chairman of the Audit Committee reported to the Board on how the Committee had discharged its responsibilities.

As Chairman of the Audit Committee it is my responsibility to ensure that the Committee is rigorous and effective in its role of monitoring and reviewing:

- the integrity of the financial statements of the Company (including formal announcements relating to the Company's financial performance and the significant financial reporting judgements contained therein);
- the effectiveness of internal controls and the risk management framework (including presentations from Group, Sector, regional and functional management);
- the effectiveness of Internal Audit (including agreeing in advance the work of Group Audit Services and reviewing the results of the work undertaken);
- the arrangements by which employees may raise concerns regarding potential impropriety in confidence and ensuring these concerns are investigated appropriately; and
- the integrity of the Group's relationship with the external auditors and the effectiveness of the audit process, including reviewing the policy for the engagement of the external auditors to supply non-audit services, considering their appointment, re-appointment and removal and approving the remuneration and terms of engagement of the external auditors.

The Audit Committee agenda is designed, in concert with the Board's, to ensure that all significant areas of risk are considered during the course of the year. During the year we have continued to focus on improving key financial controls, processes and procedures across the organisation and I am pleased with another year of good progress that has been achieved in fulfilling our responsibilities in this regard. However, there are still improvements to be implemented and embedded across the Group which will remain a key point of focus for the Committee.

I am satisfied that the Audit Committee was presented with papers of good quality during the year, provided in a timely fashion to allow due consideration of the subjects under review. I am also satisfied that meetings were scheduled to allow sufficient time to enable full and informed debate. We also reviewed our Terms of Reference during the year, including comparing them against the Code, and these were approved by the Board. These are available on www.tuitravelplc.com/investors-media.

During the year we invited a number of members of management to present to the Committee on key areas of risk and control. I met, individually and in private, with management in order to understand more fully the context and challenges of their business operations and thereby ensure the Committee's time was used most effectively. We, together and individually, visited various parts of the business and met informally with a number of members of management below Board level to gain a deeper insight into areas relevant to the role of the Committee.

The activities of the Committee members during the last year have enabled us to gain a good understanding of the culture of the organisation, the risks and challenges faced and the adequacy and timeliness of the action being taken to address them.

No major matters were raised in the annual evaluation of the Committee's performance.

During the year activities of the Committee included the following:

The integrity of financial reporting

We reviewed the integrity of the financial statements of the Company and all formal announcements relating to the Company's financial performance.

In last year's Annual Report we reported on judgements relating to Revenue Recognition and Aircraft Maintenance Provisions along with our annual review of Going Concern, Impairment, Provision for Claims, SDIs and Tax. The key areas reviewed in the current year are set out below. In each case we reviewed and discussed detailed papers received from management and took account of the views of the external auditors.

Aircraft

2013 was a busy year for aircraft transactions with the following events occurring:

- 737 MAX order signed with Boeing and approved by shareholders; and
- delivery of Boeing 787 aircraft commenced and finalisation of related credits in respect of Entry Into Service costs for this new type of aircraft.

Minnow Powell
Chairman

Audit Committee
continued

In respect of the Shareholder Circular, we considered the profit forecast and working capital statement (including the related reports from PwC) before they were presented to the Board. In respect of the Boeing 787 aircraft, we reviewed the accounting treatment of Entry into Service Costs and associated credits to ensure the most appropriate accounting treatment and we were satisfied with the judgements made.

Denied Boarding Compensation (DBC)
As a result of a ruling by the European Court of Justice in October 2012, there is a present obligation to past events in respect of delay compensation being due to passengers where they have been subject to a flight cancellation or a delay of more than three hours (subject to certain restrictions). Accordingly, a provision is required.

We reviewed the methodology for provisioning in relation to DBC exposure, the input factors, the key assumptions being applied and the classification for financial reporting. We were satisfied that the resultant provision had been calculated on a reasonable basis in light of current claims experience.

Going concern
We assessed our available facilities, facility headroom, our banking covenants and the sensitivity analyses on these items.

We challenged management's forecasts including sensitivities to downturns in budgeted trading. Reduced customer deposits were factored explicitly into the model and an assessment of the degree of flexibility in the payables ledger at the cash low point in December 2013 was also taken into account.

We were satisfied that the going concern basis of preparation continues to be appropriate in the context of the Group's funding and liquidity position.

Annual goodwill impairment review
During the year we also considered the judgements made in relation to the valuation methodology adopted by management and the model inputs used, which include the approved three-year business plan, long-term growth rates and weighted average cost of capital.

The annual impairment review has resulted in an impairment charge of £178m which, when added to the £10m charge taken earlier in the year, as a consequence of the closure of two businesses, results in a total impairment charge for the year of £188m.

£109m of the impairment charge has arisen from businesses within the Specialist & Activity Sector. Following the removal of the Sector management team at the start of the financial year, these businesses have been subjected to a thorough and detailed review, with the consequence that the latest assessment of their future profitability is lower than anticipated in the prior year. As a consequence, the discounted cash flow was insufficient to support the previous level of goodwill for certain of the Specialist & Activity Sector businesses – consequently an impairment has been taken against these specific businesses. Full details can be found in Note 10 of the financial statements.

The French tour operating business has suffered an impairment of £59m this year, due to the continued downturn in the French economy and the difficult trading environment caused by the ongoing political unrest and violence in what has traditionally been the popular North African destinations for the French market. In the absence of any perceived recovery in these North African destinations (particularly Egypt) in the near-term, management proposed an impairment of £59m of the goodwill attached to the French tour operator and we agreed with this judgement.

We also reviewed and approved the sensitivities used by management which were consistent with 2012 and 'a reasonably possible' change to model inputs including the related disclosure, as required by IAS 36.

Provision for claims
We examined the risks relating to the main legal cases facing the Group and the adequacy of provisions made against them. Management presented papers detailing the background to each case, the latest developments, their assessment of the respective risks, the mitigating action taken and amounts provided.

We agreed with the judgements reached by management in each of the cases presented.

Separately Disclosed Items (SDIs)
SDIs 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. We reviewed the items proposed by management to be reported as SDIs each quarter to validate that it was appropriate for such items to be reported this way, and agreed with their judgement.

Tax
We reviewed the judgements together with any related provisions in respect of open areas together with assessments from independent experts. In respect of German Trade Tax we considered the disclosure as a contingency to be appropriate at this time. The risks relating to the Spanish Tax case (Note 8) and the decision to settle rather than litigate were taken by the Board as a whole.

Communication of accounting policies
During the year we noted the continued development of our internal accounting policy manual including the review and re-issue of 15 accounting policies together with the related guidance.

The effectiveness of internal controls and the risk management framework

We recognise that a robust and effective system of internal control is critical to achieving reliable and consistent business performance. On behalf of the Board, we review the effectiveness of the risk management and control systems in relation to the key financial, operational and compliance controls. We noted continued focus and improvement in this area during the year.

The COSO framework of internal control continues to be implemented across the organisation. While this has focused primarily on Financial Reporting with the review and documentation of the key financial processes, risks and controls, we have noted more focus now starting to be applied to non-financial operations in those parts of the organisation where the risk and control environment is more mature.

We have seen continued improvement in the transparency and active ownership of risk management throughout the organisation, driven and supported by a strong tone at the top. We have noted the growing strength of the three lines of defence. Whilst we are pleased with the progress achieved, there remains much still to do and work in these areas will be ongoing in 2014.

First line of defence

Management
We spent time with management below Board level in order to understand their concerns and the risks, controls and challenges in their respective business or functional areas. With good progress achieved in strengthening the financial controls across the organisation over the last two years, we are now able to broaden our review and are inviting the Managing Directors of Sector/Source Markets to join their Finance Directors in attending the Committee in order to encourage wider debate and accountability.

We continued to receive reports from Group Accounting (e.g. new accounting developments and controls over prepayments) and Group Treasury (including Group Treasury policy and counterparty risks). We reviewed and approved the Group's overall taxation strategy during the year. This covered the key factors for the Group's overall tax position and forecasts for the future tax charge and cash taxes.

During the year we received presentations relating to major projects as well as receiving presentations on the control environment existing within all key business areas.

Local compliance functions
We noted the continued investment in local compliance functions within our key businesses during the year, which will serve to strengthen the control environment closer to the front-end of businesses across the organisation.

Second line of defence

Risk Management
We reviewed the work that the Group Risk Management function has undertaken to enhance the effectiveness of risk management processes throughout the organisation. We noted the impact of a well-defined risk methodology, effective risk software and improved infrastructure in supporting this improvement. In addition to reports received from the Internal Audit function on the adequacy and effectiveness of risk management in various business areas, we reviewed the Group Risk function's own assessment of stakeholder engagement and effectiveness by key business area. This assessment is shared openly with management and the Board and is used as a focus for ongoing improvement. In addition, we have received regular updates on the work of the Group Risk Management Committee during the last year and noted the quality of the risk discussions that have taken place during the year.

While significant improvements have been made in the year, further work to embed them into all our processes and procedures is planned for 2014.

Group Compliance
We noted the continued development and strengthening of the Group Compliance functions during this year. The Committee receives presentations from the three Group Compliance functions four times a year.

- Group Financial Compliance. Created in 2011 to provide assurance that individual company balance sheets across the Group are fairly stated through a programme of site visit reviews to ensure that companies in the Group comply with existing financial reporting requirements.
  - We received feedback on the individual visits, the ongoing programme of education, communication and independent validation of the financial minimum controls as well as feedback on quarterly self-assessment returns.
- Group Legal & Regulatory Compliance. Created in January 2012 to manage legal and regulatory risk across the Group, including Anti-Bribery & Corruption (ABC) and whistleblowing (see page 71).
  - We received feedback during the year on the progress being achieved in relation to existing legislation (for instance Anti-Bribery & Corruption, Competition Law, Anti Money Laundering, and Know Your Supplier) as well as preparations for new legislation (for instance the new EU Data Protection legislation due in 2014/15).
  - We also received updates on the development and roll out of the Supplier Code of Conduct as well as risks identified by the six-monthly Legal & Regulatory Compliance checklist.
- Group IT Compliance. Created in March 2012 to provide a compliance framework across the Group's IT function by producing and/or publicising appropriate standards and monitoring compliance to those standards using a mixture of self-assessment and a programme of review visits.
  - We received reports on the progress being achieved in relation to the development of minimum IT controls and plans for the next year. We also reviewed the Group's compliance with PCI DSS along with updates on the effectiveness of Business Continuity Planning (BCP) and Disaster Recovery (DR). We noted the progress made during the year in relation to BCP and DR and deadlines set for completion during this coming year.

We noted that the three Group Compliance functions and the three functions that make up Group Audit Services (Risk, Internal Audit and Fraud) have worked closely to ensure the free flow of relevant information between them and a co-ordinated and consistent approach across the Group through the Group Compliance Steering Committee.

We reviewed the talent pool of senior financial management during the year, noting the continued roll-out of competency testing in conjunction with Korn Ferry for key finance management and the role of the Finance Academy to educate and train our employees.

Audit Committee
continued

Third line of defence

Internal Audit
We noted further improvements in the development and effectiveness of the Internal Audit function during the year against the transformation plan set out by the Director of the Internal Audit function in FY2012. In particular, following the successful implementation of key infrastructure (methodology, systems, risk assessed auditable universe), we have noted a closer focus on restructuring, assessing and developing the Internal Audit team as an essential element in building a high-performance Internal Audit function.

We also noted the close and constructive working relationship that has developed between Internal Audit and the key control functions of Group Compliance and External Audit, which is producing a more efficient and integrated approach to the provision of risk and controls assurance.

The Committee holds a private session with the Director of Group Audit Services without management present once a year. I also meet with the Director of Group Audit Services informally before each Committee meeting, without management present, in order to provide the opportunity for open and timely dialogue. Typically we discuss the quality and content of papers due for discussion with the Committee, emerging business risks and the quality of management engagement with internal audit and any areas of concern therein.

The effectiveness of Internal Audit

Again this year we requested a review on the effectiveness of Internal Audit. The approach was consistent with last year, covering the effectiveness of the function (positioning, processes, systems and people) assessed both from an internal perspective (functional set-up benchmarked against best practice, file review, interviews of internal audit staff) and from an external perspective (the perception of 12 senior financial personnel and senior management and six Board members responding to 12 questions). We noted a marked shift in effectiveness from both an internal and external perspective as the impact of the improvement plan has begun to work its way through into day-to-day operations.

In addition, I selected a judgemental sample of 16 internal audit reports in order to validate that the control assessments made by the Internal Audit function were appropriate and in line with our guidelines. I reviewed these with the Director of Internal Audit and invited the Chief Financial Officer to do the same and we were satisfied that the control assessments were appropriate in each case.

The arrangements by which staff may raise concerns regarding potential impropriety in confidence and that these concerns will be investigated appropriately

We received updates during the year on the arrangements by which the business encourages feedback from management and employees on instances of potential impropriety. This included presentations from Group Legal on the development of the whistle-blowing hotlines across the Group (including number of calls, issues and benchmarking against other named companies), from Group Finance on the development of HOT principles (Honesty, Openness and Transparency) and the communication thereof via the Finance Academy and, from Group HR, an analysis of responses by business/level of seniority to three key questions in the Your Voice employee feedback survey relating to potentially unethical and/or dishonest behaviour.

The integrity of the Group's relationship with External Audit and the effectiveness of the External Audit process

Effectiveness of External Audit

Again this year we requested a review of the effectiveness of external audit as perceived by 12 senior financial personnel and senior management closely involved in the year-end reporting process as well as members of the Audit Committee. The approach was consistent with last year, involving 25 questions covering three key areas – the robustness of the audit process, the quality of delivery and the quality of people and service. Questions related to professional scepticism, integrity and competence, understanding of the business risks, issues and their impact, the clarity and appropriateness of the audit strategy, the efficiency and effectiveness of audit delivery, constructive relationships and control recommendations, good judgement and clear and timely communication. We noted a general improvement in the scores compared to the previous year and the perception that, overall, the 2012 audit process had worked well. We noted that all of the key actions identified from the previous year's review had been addressed. Some further areas for improvement were identified during this year's review and we will assess progress against these in 2014. In addition, we also noted the results of the Audit Quality Review Team (part of the Financial Reporting Council) assessment of the effectiveness of PwC relative to its peers as well as PwC's own transparency report.

Details of fees payable to the auditors and its associates are given in Note 7. Further information in respect of non-audit services is given on the next page.

Audit plan and approach

During the year we reviewed PwC's benchmarking of our organisation's audit risk profile relative to the FTSE 350 and the audit strategy developed as a result. We noted the risk-based audit approach, key areas of audit focus and the audit plan produced as a result. The annual plan takes account of size, complexity and the control environment of individual businesses as well as the overall coverage split by revenue, absolute EBITA and absolute net assets. In addition, we noted and agreed with PwC's emphasis on substantive as opposed to controls testing.

The Committee holds a private session with the Lead Partner from our external auditor without management present once a year immediately prior to the publication of the year end accounts. In addition I meet with the Lead Partner on a regular basis throughout the year to provide the opportunity for open communication and the free flow of any concerns relating both to the openness, transparency and general engagement of management with the audit process as well as to understand PwC's assessment of key judgements as they arise.

Re-appointment of external auditors

Based on the results of our annual review, and our experience during the year, we have recommended to the Board the re-appointment of the external auditors (who have completed their third audit). We will continue to review the performance of PwC formally on an annual basis and, although not required by the UK Corporate Governance Code to undertake a formal tender process until 2020, will continue, during this remaining seven-year period, to keep this under close review in the best interests of our shareholders.

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

Non-audit services

The Audit Committee has developed the Company's policy on the engagement of the auditors to supply non-audit services and has sought to ensure that the provision of such services does not impair the independence and objectivity of the Company's external auditors. We have achieved this by considering the Auditing Practices Board Ethical Standard Number 5 (revised). This relates to non-audit services provided to audited entities and sets out six principal threats to objectivity and independence, for example, the auditors cannot act as management nor audit their own work. We have reviewed, monitored and approved, where appropriate, the nature and extent of non-audit services provided by the Company's external auditor and are satisfied that their independence and objectivity has not been compromised. We have also reviewed the fees (both individually and in aggregate relative to the audit fee) and management's compliance with the approval thresholds set out in the Company's non-audit services policy.

We acknowledge that, in some circumstances, the external auditors' understanding of the business can be beneficial in improving the efficiency and effectiveness of advisory work and, therefore, it has been considered appropriate that the external auditors be engaged.

A summary of the policy is given below:

- non-audit fees are capped in any one year to no more than the audit fee itself;
- routine tax compliance and advisory services may be provided up to a pre-approved maximum of £1m in any one financial year, subject to the overall cap noted above;
- any engagement where the value is expected to exceed £100,000, but be less than £250,000, should be pre-approved by the Chairman of the Audit Committee; and
- engagements at or above £250,000, must be pre-approved by the Audit Committee.

In total £2m was spent on non-audit fees during the year (being 28% of audit and audit related fees). In addition, £1m was spent for services to comply with legislation. Further details of non-audit services are set out in Note 7. Significant expenditure that was authorised in the year, i.e. exceeding £250,000, is outlined below:

Non-Audit Services – Significant Expenditure Authorised

Business Area	Work undertaken	Rationale for use of the external auditor	£000s
Group	*Boeing Transaction:* Detailed analysis of the forecast trading results, cash and working capital requirements for the Group from 1 March 2013 to 30 September 2014 in support of the circular presented to shareholders as part of a significant (Class 1) transaction.	Detailed knowledge and understanding of the business.	850
Germany	*COSO – Operations:* Following on from the first stage of the COSO project (i.e. the Financial Reporting Category) to assist the German business in developing the next stage of the project (i.e. the Operations Category).	Won on competitive tender on the basis of their detailed knowledge and understanding of the business. PwC will support Ernst & Young (EY) in scoping the work and collecting basic information relating to risk and controls, with EY responsible for ensuring independent review of the results and implementation of the project.	420
Group	*Functional Baseline Assessment:* Assist in gathering data and identifying opportunities to reduce costs and improve performance across Finance, HR and IT in Mainstream and A&D.	Detailed knowledge and understanding of the business (its operational base and stakeholders), the requirements of the exercise (having completed a similar exercise in 2007) and the travel market.	270

Minnow Powell
Chairman
9 December 2013

Nomination Committee

"The Committee's main focus is on strengthening, balancing and understanding the range of skills, experience and diversity of the Board, its Committees and key roles below Board level."

Composition of the Committee

As at 30 September 2013, the Committee comprised three Independent Non-Executive Directors and one Shareholder Director (the latter being appointed in accordance with the Relationship Agreement). The Chairman is Sir Michael Hodgkinson (Senior Independent Non-Executive Director) and the other members are Minnow Powell (Independent), Harold Sher (Independent) and Friedrich Joussen (Shareholder). Rainer Feuerhake and Dr Michael Frenzel (both Shareholder Directors) retired during the year on 8 February and 25 March 2013 respectively and Friedrich Joussen was appointed as a Committee member on 25 March 2013 to replace Dr Frenzel.

Key objectives

- To identify, evaluate and recommend candidates for appointment as directors;
- To ensure that the Board has the right balance of skills, mix of knowledge and experience; and
- To review and contribute to the talent management strategy for the Board, its Committees and senior managers in order to attract a highly-qualified and diverse workforce.

Committee activities

During the year two new appointments were made to the Board. Following the retirement of Dr Frenzel (Chairman) and Rainer Feuerhake (Non-Executive Director), Friedrich Joussen and Sebastian Ebel were appointed as TUI AG's Shareholder Directors (in accordance with the terms of the Relationship Agreement).

Two meetings of the Nomination Committee took place – in March and September 2013. The meeting in March was to consider the appointment of Sebastian Ebel and, in September, the focus was on succession planning, talent management across the Group, diversity and a review of the effectiveness survey.

Talent management strategy

The September 2013 meeting focused on the current challenges we face to ensure that succession plans are in place for key roles, the mobility of the workforce and providing global career opportunities for our people. We confirmed our commitment to recognise and nurture talented individuals across the whole Group whilst ensuring that suitable development programmes are in place for key managers.

Diversity

Our diversity objectives were agreed in 2012 and these were considered again at the September 2013 meeting. These objectives recognise the importance of gender and international diversity and set out our aim to achieve at least 25% female representation among the Board's membership by 2015. As at 30 September 2013, this percentage is 13%. When making new appointments, the Board is committed to seeking directors with the right skillsets and gender balance in line with the 25% aspiration.

Committee effectiveness survey

Also in September 2013, the Committee considered the results of the survey. Following a review of the comments made, it was concluded that there should be a greater focus during the coming year on succession planning for Non-Executive Directors.

The Committee will continue to review the membership of the Board and its Committees during the coming year and, as part of this process, will also take into consideration the diversity of business skills and experience gained from different cultural and geographical backgrounds.

Sir Michael Hodgkinson
Chairman & Senior Independent Director
9 December 2013

25%
Target for female representation on the Board by 2015

Sir Michael Hodgkinson
Chairman

Remuneration report

I am pleased to introduce the Directors' Remuneration Report for the year ended 30 September 2013.

Last year's Directors' Remuneration Report anticipated many of the new remuneration reporting requirements which were in draft form at that time. We received positive feedback from shareholders on the revised format and approach. This year we are one of the first companies to publish a report in the format required under the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 that came into force on 1 October 2013. We hope that you find our report comprehensive, clear and informative.

The implementation of new legislation, coupled with a review of executive remuneration, has led to this being a particularly busy year for the Remuneration Committee (the Committee).

Executive Director remuneration review

As a Committee we believe it is essential that the Directors' Remuneration Policy (the Policy) is aligned with the Company's Strategic Framework, the interests of shareholders and the external competitive market. We also recognise the current focus on executive pay and are mindful of investor expectations and best practice guidelines.

With this in mind, during 2013, the Committee undertook a review of the Policy and engaged in consultation with our key shareholders. I would like to take this opportunity to thank them for the helpful and constructive feedback which they provided. Following this process, we are proposing a number of changes to our remuneration framework.

In summary, these changes are intended to:

- simplify our remuneration structure;
- provide greater transparency for shareholders;
- reduce the overall quantum of long-term remuneration by the removal of the matching shares element of our deferred bonus arrangements;
- introduce malus provisions on unvested deferred bonus and long-term incentive awards; and
- create greater alignment with investors by increasing our shareholding guidelines for Executive Directors.

Under the existing Deferred Annual Bonus Scheme (DABS) Executive Directors may be given a matching share award of up to four times the deferred bonus amount. The last grant of matching share awards will be made in December 2013 (for performance in the year ended 30 September 2013). The change will simplify our incentive framework and provide greater transparency. We are also responding to feedback from some of our shareholders who have expressed concerns with matching share arrangements more generally.

Maximum annual bonus opportunities will remain the same and the performance measures, which the Committee consider are appropriately stretching, are unchanged. Executive Directors will still be required to defer 25% of any bonus awarded, with the option of deferring a further 25% if they wish to do so.

The removal of the matching share element will result in a reduction in overall incentive opportunity. In line with our aim of linking a substantial proportion of the total remuneration package to long-term performance measures, the Committee proposes to increase the maximum Performance Share Plan (PSP) award limit to 400%. However, it is envisaged that awards will generally be made of up to 300%.

We consider that the current stretching PSP performance measures continue to be aligned with our business strategy and are appropriate for the business at this time. Therefore, we are not proposing any changes to the performance measure framework.

Malus provisions

We have decided that it is an appropriate time to seek shareholder approval for the renewal and update of the Company's two shareholder-approved executive share plans – the PSP and DABS – at the Annual General Meeting (AGM) to be held on 6 February 2014. The current rules expire in July 2017. The renewed versions will operate in the same way as the existing plans and also reflect the changes outlined above.

Revising the rules now gives us the opportunity to ensure that they are completely in line with the Policy, and reflect current market practice, including the introduction of malus provisions. The malus provisions will allow us to reduce or cancel unvested PSP and DABS awards in a number of specific circumstances when it is in the interests of shareholders to do so.

Coline McConville
Chairman

Remuneration report
continued

Shareholding guidelines
We are committed to ensuring alignment between our Executive Directors and the long-term interests of our shareholders. Within this context, the shareholding guidelines for the Executive Directors have been increased as follows:

	Shareholding requirement (as percentage of salary)	
	Before 1 October 2014	From 1 October 2014
Peter Long	200%	400%
Johan Lundgren	150%	200%
William Waggott	150%	200%
Dr Volker Böttcher	150%	200%

Salary review
Executive Directors will not receive a salary increase for the year commencing 1 October 2013. The CEO has not received a salary increase since 2008.

Bonus awards and long-term share plan vesting
As you will have seen previously, we have had a very successful year. As stated earlier, the Committee closely aligns remuneration decisions to the delivery of our strategic plans and the achievement of stretching financial results. As detailed later, the Company's strong profit and cash performance is reflected in the Executive Directors' bonus awards. In addition, achievement of the Company's EPS and TSR targets, together with significant share price growth over the last year, have resulted in the achievement of long-term incentive goals.

On behalf of the Committee I thank you for your support and trust that you find the new-style report informative.

Coline McConville
Remuneration Committee Chairman
9 December 2013

The Directors' Remuneration Report for the financial year ended 30 September 2013 has been prepared on behalf of the Board by the Committee.

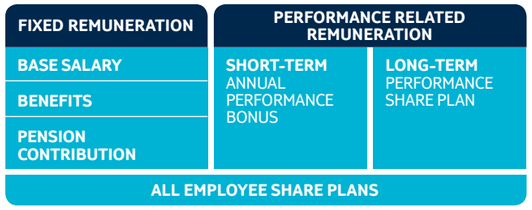
The report has been compiled taking into account the Listing Rules of the Financial Conduct Authority, the relevant sections of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Committee adopts the principles of good governance as set out in the UK Corporate Governance Code.

This report will be subject to two votes at the AGM on 6 February 2014 – a binding vote in relation to the Directors' Remuneration Policy and an advisory vote in relation to the statement by the Remuneration Committee Chairman and the Annual Report on Remuneration. In addition, there will be two separate votes to approve the renewed and updated versions of the Company's two executive share plans.

As part of the remuneration review outlined previously, the Committee has reaffirmed the aims of the Policy as follows:

- to set the total remuneration package at a level that reflects the competitive markets in which the Group operates;
- to align the Executive Directors' interests with those of shareholders over the long-term by building a significant shareholding in our business;
- to link a substantial proportion of the total remuneration package to the achievement of demanding long-term financial performance targets;
- to provide an appropriate balance between fixed remuneration and variable 'at-risk' reward;
- to provide a package that is simple and transparent to shareholders;
- to enable recruitment, retention and stability; and
- to reinforce a high-performance culture throughout the Group.

The Policy components are summarised below:



Directors' Remuneration Policy
This section sets out the Policy which will be put forward for shareholder approval at the AGM on 6 February 2014 in accordance with section 439A of the Companies Act 2006. The Policy will apply to any remuneration and loss of office payments made on or after 1 October 2014.

Executive Directors' Future Policy Table

Element	Base salary
Purpose and link to strategy	Set at levels to attract and retain Executive Directors of the high calibre required to develop and deliver the strategy. To reflect the individual's skills, experience and role within the Group.
Operation	When determining salaries, the Committee typically takes into account: • business and individual performance; • salary levels at companies of a similar size, industry, global scope and complexity to TUI Travel PLC; and • the pay and conditions of employees elsewhere in the Group. Paid monthly in cash. Salaries are generally reviewed annually in October, although an out-of-cycle review may be conducted if the Committee determines appropriate. A review will not necessarily lead to an increase in salary.
Maximum opportunity	Salary increases will typically be in line with the general level of increase awarded to other employees in the Group. In exceptional circumstances, at the Committee's discretion, higher increases may be made. These could include: • increase in the scope and/or responsibility of the individual's role; • development of the individual within the role; and/or • where a larger increase is considered necessary for the retention of an Executive Director. Salary levels for the year ending 30 September 2014 are detailed in the Annual Report on Remuneration for the year ended 30 September 2013.
Performance measures	Individual and business performance are considerations in deciding salary levels.

Element	Retirement benefits
Purpose and link to strategy	To attract and retain Executive Directors of the right calibre. To provide a market competitive retirement benefit. To reassure Executive Directors about their provision in retirement.
Operation	Executive Directors can choose to participate in the relevant local defined contribution pension or receive a cash allowance or a combination thereof. William Waggott has deferred pension entitlements under the final salary section of the TUI Pension Scheme (UK). He ceased to be an active member on 3 September 2007. When appointing new Executive Directors, the Committee may apply alternative pension provisions. In such circumstances the Committee will consider a range of factors including cost, market practice and pension policy elsewhere in the Group.
Maximum opportunity	The maximum Company contribution to an Executive Director's pension (or equivalent cash allowance) may not exceed 50% of base salary.
Performance measures	Not performance related.

Element	Other benefits
Purpose and link to strategy	To ensure broad competitiveness with market practice. To support personal health and well-being.
Operation	Benefits provision is set at an appropriate market level, taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, market practice at similar companies and the level of benefits provided elsewhere in the Group. The benefits to which Executive Directors are entitled include (but are not limited to) private medical insurance (for the individual and his family), life assurance, permanent health insurance, car provision/allowance, holiday travel concessions (up to an annual limit of £2,500) and interest-free loans. Global relocation support (for up to five years) and any associated costs or benefits (including but not limited to housing benefits, personal tax advice and school fees) may also be provided if business needs require it. The Company may also provide tax equalisation arrangements. The Committee may remove benefits that Executive Directors receive or introduce other benefits if considered appropriate to do so. Executive Directors are eligible to participate, on the same basis as other employees, in the Company's HMRC-approved Share Incentive Plan or any other all-employee share plan operated in the future.
Maximum opportunity	The maximum level of benefits provided to an individual Executive Director may not exceed £70,000 per annum. In exceptional circumstances, at the Committee's discretion, an exception to the above limit might be approved, e.g. where global relocation of an Executive Director is considered necessary to deliver business objectives. Participation by Executive Directors in the Share Incentive Plan, and any other all-employee share plan operated in the future, is limited to the maximum award levels permitted by the relevant legislation.
Performance measures	Not performance related.

Remuneration report
continued

Element	Annual Performance Bonus and Deferred Annual Bonus Scheme
Purpose and link to strategy	To encourage and reward the attainment of challenging financial and strategic performance targets during an annual period. The performance measures closely align to the strategy of the business as outlined on pages 14 to 25 and shareholder value creation as summarised in the investment case on page 4. The deferred element drives and rewards delivery of sustained long-term performance, aligns Executive Director and shareholder interests and supports retention.
Operation	Performance is normally assessed over one financial year. 25% of any bonus paid must normally be deferred into shares under DABS for three years. Participants may either voluntarily choose to defer up to an additional 25% or the Committee may, in certain circumstances, determine that an additional 25% of the bonus should be deferred on a compulsory basis. As outlined in the Notes to this Table the last awards of matching shares under DABS will be made in December 2013. The awards will relate to performance in the year ended 30 September 2013. These, and other previous DABS awards currently outstanding, will vest in subsequent years. The vesting of matching awards is subject to continued employment, achievement of performance conditions and compliance with the policy on payment for loss of office. Dividend equivalent payments may be made equal to the amount of dividends that would have been payable during the period between the grant and vesting of an award. Share awards are normally made in the form of nil-cost options but may be awarded in other forms if appropriate (such as conditional share awards). Nil-cost options may normally be exercised until the tenth anniversary of the date of grant. Awards may also be satisfied in cash and may be granted to a Director's personal service company at the discretion of the Committee. For bonuses awarded in respect of the year commencing 1 October 2014, and subsequently, malus provisions will apply. These allow the Committee to cancel or reduce vesting of unvested awards in certain circumstances including: • a misstatement of results that resulted in a bonus or award being paid at too high a level; • a material failure of risk management or health and safety; • serious reputational damage to the Company; and/or • personal misconduct. The Committee may adjust and amend the terms of the awards in accordance with the plan rules.
Maximum opportunity	The maximum bonus opportunity (as a percentage of salary) is up to 175% for the CEO and up to 140% for the other Executive Directors. The last award of DABS matching shares will be made in December 2013. The award will relate to performance in the year ended 30 September 2013. The maximum multiple awarded will be a ratio of four matching shares to one deferred share.
Performance measures	**Annual bonus** The annual bonus is based on a mix of financial and individual business objectives, with the majority of the weighting being given to financial metrics. • Financial performance-related measures (typically 75% to 85% of total) are chosen carefully to ensure a strong link between reward and underlying Company financial performance. As an example, these measures may typically include profit, cash flow or other measures as appropriate. • Individual performance (15% to 25% of total) is measured through an assessment of comprehensive business deliverables, financial targets, personal performance and the achievement of specific individual objectives. The exact measures, weightings and targets are determined by the Committee each year taking into account the Group's key strategic priorities and the approved budget for the year. A sliding scale between 0% and 100% of the maximum award applies for achievement between threshold and maximum performance under the bonus plan.

Element	Performance Share Plan (PSP)
Purpose and link to strategy	To incentivise long-term value creation through the setting of stretching targets that ensure a strong link between reward, underlying Group financial performance and shareholder returns. To support recruitment and retention.
Operation	Awards are discretionary and normally vest subject to performance over a three-year performance period. The vesting of awards is subject to continued employment or compliance with the policy on payment for loss of office. Dividend equivalent payments may be made equal to the amount of dividends that would have been payable during the period between the grant and vesting of an award. Share awards are normally made in the form of nil-cost options but may be awarded in other forms if appropriate (such as conditional share awards). Nil-cost options may normally be exercised until the tenth anniversary of the date of grant. Awards may also be satisfied in cash and may be granted to a Director's personal service company at the discretion of the Committee. For awards made in respect of the year commencing 1 October 2014, malus provisions will apply. These allow the Committee to cancel or reduce vesting of unvested awards in certain circumstances including: • a misstatement of results that led to the award being granted at too high a level; • a material failure of risk management or health and safety; • serious reputational damage to the Company; and/or • personal misconduct. The Committee may adjust and amend the terms of the awards in accordance with the plan rules.
Maximum opportunity	The maximum award opportunity under the PSP is 400% of salary in any financial year. It is currently envisaged that awards will be made of up to an operational limit of 300% of salary, although a larger award may be made in exceptional circumstances. The Committee also retains power to increase the operational limit to up to the maximum plan limit without shareholder approval if it considers it appropriate to do so, in which case the Committee will aim to engage with shareholders.
Performance measures	Awards vest based on performance against EPS (as defined in the plan rules), relative TSR and ROIC measures over a three-year period. Normally, these will be broadly weighted as below, although the Committee may vary the precise weightings, as well as setting the specific targets for each measure as appropriate to reflect business and strategic priorities. • EPS – 50% • Relative TSR – 25% • ROIC – 25% To ensure that the PSP awards vest only when shareholder value is being created, awards will be subject to the achievement of an initial financial performance hurdle. This will normally be based on a return on capital measure. Failure to achieve this hurdle will usually result in none of the award vesting. Should the hurdle be achieved vesting for threshold performance will be up to, but no more than, 15% of the maximum award opportunity. If events happen that cause the Committee to determine that the performance conditions are no longer a fair measure of the Company's performance, the Committee can amend the conditions as it determines to be appropriate, with due regard to the best interests of shareholders.

Notes to the Executive Directors' Future Policy Table

Legacy matters

The Committee reserves the right to make remuneration payments and payments for loss of office (including the exercise of any discretions available to the Committee in connection with such payments) that fall outside the Policy where the terms of the payment were agreed before the Policy came into effect or at a time when the relevant individual was not a Director of the Company and the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment agreed at the time the award was granted. The share awards under the PSP and DABS held by the Executive Directors which were granted, or which are anticipated to be, prior to the Policy coming into effect are set out in the Annual Report on Remuneration.

Matching shares

The last award of DABS matching shares will be made in December 2013. The award will relate to performance in the year ended 30 September 2013. The maximum multiple awarded will be a ratio of four matching shares to one deferred share. These and other previous DABS awards that are currently outstanding will therefore vest in subsequent years.

Matching awards are subject to performance measured over a three-year period. The framework used for assessing performance is the same as that for PSP awards. If events happen that cause the Committee to determine that any target is no longer a fair measure of the Company's performance, the Committee can amend the target if considered appropriate, with due regard to the best interests of shareholders.

Selection of performance measures – annual bonus

The Committee will choose annual bonus performance measures and targets which will provide an appropriate balance between incentivising Executive Directors to achieve financial targets for the year and driving the delivery of specific business deliverables, strategic objectives and personal goals.

Selection of performance measures – PSP

The Company aims to create sustainable long-term shareholder value. To encourage and reward this, the Company aims to align performance measures under the PSP with the strategy of the business and set stretching targets, achievement of which it considers should result in long-term value creation. In particular:

- financial performance measures – a direct measure of business health, reflecting the strength of our underlying financial performance. We take into account a number of internal and external reference points to ensure that targets are appropriately stretching; and
- share price performance measures – the most focused indicator of our ultimate delivery of shareholder returns and intended to promote alignment between investors and Executive Directors. Targets are set taking into account a number of factors, including reference to typical market practice. They are set at a level which the Committee considers represents stretching performance.

Remuneration report
continued

Deferred bonus awards not subject to performance measures
No further performance measures apply to deferred share awards granted under the DABS as these represent the deferral of annual bonus amounts that have already been earned.

PSP and DABS rules
The Company's existing PSP and DABS rules, approved by shareholders on 25 July 2007, can continue to be operated until 25 July 2017. However, subject to shareholder approval at the AGM on 6 February 2014, all future awards granted to Executive Directors will only be made under the renewed and updated versions of these rules.

Non-Executive Directors' Future Policy Table
The Board aims to recruit high-calibre Non-Executive Directors, with broad commercial, international or other relevant experience. The remuneration policy for Non-Executive Directors (with the exception of the Chairman) is set by the Board having taken account of the fees paid in other companies of a similar size and complexity and the limits set by the Articles of Association. The policy for the Chairman is determined by the Committee (of which the Chairman is not a member). When recruiting Non-Executive Directors, the remuneration arrangements offered will generally be in line with those set out in the Non-Executive Directors' Future Policy Table.

Approach to setting fees	Basis of fees	Other items
Fees are set at an appropriate level to attract and retain high-calibre Non-Executive Directors. Fees are reviewed at appropriate intervals taking into account the time commitment expected and practice in peer companies of a similar size, sector and complexity.	Each Non-Executive Director is paid a basic fee for undertaking Non-Executive Director and Board duties. A higher fee is typically paid to the Chairman of the Board and the Deputy Chairman. Additional fees may also be paid for taking on Committee responsibilities and other Board duties. The maximum aggregate fees for all Non-Executive Directors allowed by the Company's Articles of Association is £1.5m. Non-Executive Directors' fees are not subject to claw-back or withholding arrangements.	The Non-Executive Directors do not participate in the annual bonus or long-term incentive plans and do not receive any pension benefits. The Group provides each Non-Executive Director with relevant liability insurance for the duration of their appointment. Non-Executive Directors receive holiday concessions. The maximum annual value is £2,500. There are currently no other benefits provided to Non-Executive Directors. However, the Board may introduce additional benefits if it is considered appropriate to do so.

Remuneration arrangements across the Group
Our reward philosophy is consistent across the Group, namely that reward should support our business strategy and be sufficient to attract and retain high-performing individuals. Only success is rewarded. Within this framework, there are differences for a range of reasons, including global location and the local talent market.

- Salaries and benefits – a range of factors are considered including business and individual performance, the pay of other employees and external market data.
- Annual bonus – consistent with the policy for Executive Directors, annual bonuses across the Group are typically linked to local business performance with a focus on underlying profit growth and performance against key strategic business objectives. Key management team members may also receive some of their annual bonus in shares which have to be deferred for three years, in line with the policy for Executive Directors.
- PSP – a small number of senior executives who provide significant strategic input may be invited to participate in the PSP in any year.
- All Employee Share Plans – an HMRC-approved Share Incentive Plan is open to all UK eligible employees (including Executive Directors) on the same terms, giving them the opportunity to become shareholders in the Company. Participation in a global plan may be offered in the future. Currently, over 3,200 employees participate in the Share Incentive Plan and hold over 5.6 million shares.

Approach to the recruitment and retention of Executive Directors
We have a strong track record of succession planning and growing and promoting talent internally.

Principles
When hiring a new Executive Director, or promoting to the Board from within the Group, the Committee will offer a package that is sufficient to retain and motivate and, if relevant, attract the right talent whilst at all times aiming to pay no more than is necessary. In determining an appropriate remuneration package, the Committee will take into consideration all relevant factors, including, but not limited to, the impact on other existing remuneration arrangements, the candidate's location and experience, external market influences and internal pay relativities.

Typically, the new appointment will be in line with, or be transitioned onto, the policy as set out in the Executive Directors' Future Policy Table. Following any Executive Director recruitment the Committee will include the rationale for the arrangements offered in the next Remuneration Report.

Components and approach
The package offered to a new Executive Director will typically include those elements listed within the Executive Directors' Future Policy Table. In certain circumstances, the Committee may use other elements if it considers it appropriate to do so with due regard to the best interests of the shareholders. In particular, in considering its approach, the Committee will take into account factors which include, but are not limited to, typical market practice, existing arrangements for other Executive Directors, internal relativities and market positioning.

Where expatriate appointments are made, the Committee may consider providing additional benefits where considered appropriate and in the Company's best interests to do so.

In exceptional circumstances the Committee may, at its discretion, offer a service contract that contains a longer initial notice period, tapering down to 12 months over a set period of time, if it is deemed to be in the best interests of our shareholders.

Buy-outs
The Committee may make awards on hiring an external candidate to 'buy-out' forfeited remuneration arrangements. In doing so, the Committee will typically take account of relevant factors including any performance conditions attached to these awards, the form in which they were awarded (e.g. cash or shares) and the time over which they would have vested. Generally it is the Committee's intention that the buy-out of awards will be made on a comparable basis to those forfeited and will be share-based.

In determining whether it is appropriate to offer a buy-out, the Committee will ensure that any awards are made in the best interests of both the Company and its shareholders and will give due regard to all relevant factors.

Maximum level of variable pay
The maximum level of variable pay which may be awarded to new Executive Directors is limited to 575% of salary. This excludes any buy-out awards.

For an internal appointment, any variable pay element awarded in respect of the previous role may either continue on its original terms or be adjusted to reflect the new appointment.

It is appropriate for the Committee to have discretion to make additional one-off cash or share-based awards to Executive Directors in order for the Committee to be able to respond in exceptional and unexpected circumstances. The Company will make full disclosure of any such awards made, including the rationale, in the Company's Annual Report and Accounts for the relevant financial year.

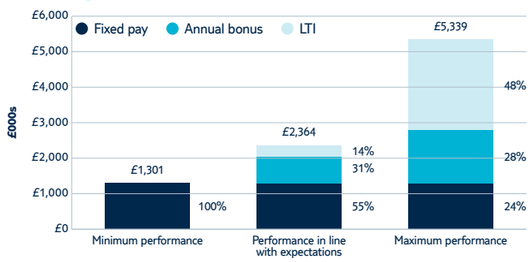
Illustrations of the application of the Executive Directors' Remuneration Policy
Our remuneration arrangements have been designed so that a substantial proportion of pay is dependent on the achievement of stretching short and long-term performance targets.

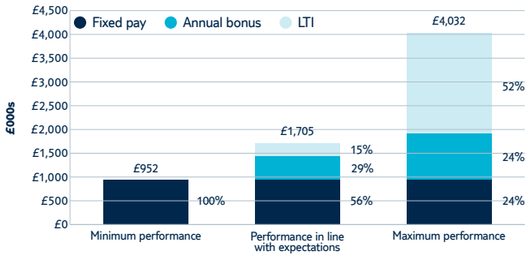
As part of this process, the Committee reviews, on at least an annual basis, the impact of different performance scenarios on the potential reward opportunity and pay-outs to be received by the Executive Directors. The charts show hypothetical values of the remuneration package for Executive Directors under three assumed performance scenarios:

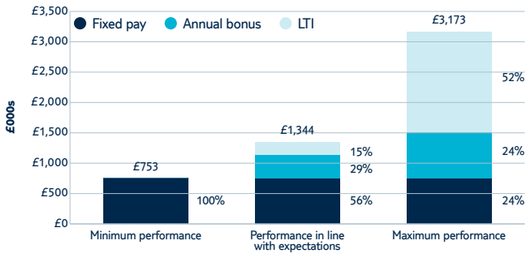
- minimum performance (i.e. fixed elements of pay only, with no bonus pay-out or vesting of long-term incentives);
- performance in line with expectations (assuming 50% pay-out under the annual bonus, and threshold performance under the PSP, i.e. 10% vesting under the EPS element and 15% vesting under the TSR and ROIC elements); and
- maximum performance (assuming 100% pay-out under both the annual bonus and the PSP).

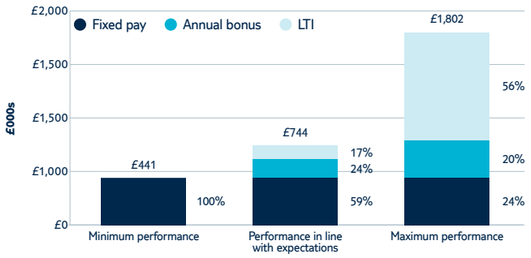
The charts presented are in line with our remuneration policy effective from 1 October 2014. Matching share awards under DABS are excluded as these will not be granted in respect of years commencing 1 October 2013 and subsequently.

These charts are for illustrative purposes only and actual outcomes may differ from those shown.

Peter Long


Johan Lundgren


William Waggott


Dr Volker Böttcher


Notes:

1 These illustrations of the application of the Directors' Remuneration Policy show the potential reward opportunity for the Executive Directors from 1 October 2014 onwards (assuming PSP awards are made at the operational limit of 300% of salary).

2 Total remuneration for minimum performance. Fixed remuneration is comprised of salary, standard benefit provision (company car or car allowance, medical insurance and holiday travel concessions based on maximum values for the year ended 30 September 2013) and employer pension contribution/allowance.

3 Total remuneration for performance in line with expectations is comprised of fixed remuneration, annual bonus at 50% of maximum performance levels and long-term incentives at threshold performance levels.

4 Total remuneration for maximum performance is comprised of fixed remuneration, annual bonus at maximum performance levels and long-term incentives at maximum performance levels.

5 All scenarios assume no share price appreciation during the vesting period. Therefore, depending on share price performance, the actual outcomes could be higher

6 All employee share plans have been excluded, as have any legacy awards which Executive Directors may hold.

7 In calculating remuneration for Dr Volker Böttcher, who is paid in EUR, payments have been converted at 1.1902 to 1 GBP, being the average exchange rate for the period 1 October 2012 to 30 September 2013.

Remuneration report
continued

Directors' Service Agreements

In line with best corporate practice for listed companies, the Committee's policy is for Executive Directors to have rolling contracts with a 12 month notice period (although in some recruitment circumstances a longer notice period may be offered, tapering down to 12 months over a set period of time).

The following table sets out a description of any obligations on the Company, contained in the UK Executive Directors' service contracts, which could give rise to, or impact on, remuneration payments or payments for loss of office.

Notice period	12 months' notice by the Company and six months' notice by the Executive Director.
Expiry date	Rolling service contract. No fixed expiry date.
Basic salary	Contractual entitlement to receive a basic salary and for a salary review to take place each year. The Company is not obliged to increase an Executive Director's salary following a review.
Pension contributions	Pension contribution of up to 50% of basic salary for Peter Long and 33% of basic salary for Will Waggott and Johan Lundgren.
Contractual benefits	Contractual entitlement to: • private medical insurance; • permanent health insurance; • sick pay; • life assurance; • company car/allowance; and • holiday travel benefits.
Annual bonus	Contractual entitlement to participate in the annual bonus scheme dependent on performance factors.
Long-term incentive plans	Contractual entitlement to be considered for participation in the PSP and DABS, subject to the Company's policy in relation to such schemes and to the approval of the Committee.
Retirement date	There is no default retirement age. Requests for retirement are considered on a case-by-case basis. It is anticipated that at least 12 months' notice will be provided, albeit that the contractual requirement on the part of an Executive Director to give notice is only six months.
Termination payments	The Director will be paid his salary and any other contractual benefits in respect of the relevant notice period. If the Director is placed on notice he may be eligible to be paid an annual bonus equivalent to 50% of the maximum amount that could have been awarded had he worked his notice.

The service contract for any new Executive Directors will not include any provision that is more generous than those listed above.

The obligations on the Company, which could give rise to, or impact on, remuneration payments or payments for loss of office, contained in Dr Volker Böttcher's service contract are set out below. Dr Böttcher's service contract is governed by German law.

Notice period	12 months' notice by the Company and 12 months' notice by the Executive Director.
Expiry date	Rolling service contract. No fixed expiry date. Fixed retirement date.
Basic salary	Contractual entitlement to receive a basic salary and for a salary review to take place each year. The Company is not obliged to increase Dr Böttcher's salary following a review.
Pension contributions	Pension contribution of up to 25% of basic salary.
Contractual benefits	Contractual entitlement to: • accident insurance to cover death or invalidity; • sick pay; • company car/allowance; and • holiday travel benefits.
Annual bonus	Contractual entitlement to participate in the annual bonus scheme dependent on performance factors.
Long-term incentive plans	Contractual entitlement to be considered for participation in the PSP and DABS, subject to the Company's policy in relation to such schemes and to the approval of the Committee.
Retirement date	Dr Böttcher's contract automatically expires at the end of the month in which he reaches the age of 63.
Termination payments	If Dr Böttcher is placed on notice he may be eligible to be paid an annual bonus equivalent to at least 50% of the maximum amount that could have been awarded had he worked his notice. The normal award required under German case law is the average of the previous three-years' bonus awards. The Company may also apply a non-compete clause. In such circumstances under the German Commercial Code Dr Böttcher would be entitled to 50% of the annual remuneration he last received in his role (including variable remuneration) as compensation. This would be paid in 12 monthly instalments and would be subject to mitigation. Compliance with the German Commercial Code is a legal obligation. In a termination situation the Committee would strive to balance the interests of the Company with German legislative requirements.

Executive Directors are able to accept non-executive appointments outside the Company (as long as this does not lead to a conflict of interest) with the consent of the Board as such appointments can enhance their experience and add value to the Company. Any fees received (excluding positions where the Executive Director is appointed as the Company's representative) are retained by the Executive Director.

The following table sets out a description of any obligations on the Company, contained in the letters of appointment of the Non-Executive Directors, which could give rise to, or impact on, remuneration payments or payments for loss of office:

Notice period	Three months' notice by either party.
Expiry date	Rolling appointment typically expected to last six years, save for Minnow Powell, Janis Kong and Coline McConville, whose letters of appointment are subject to a three-year fixed term.
Fees and benefits	Entitled to receive fees, together with such holiday concession arrangements as may from time-to-time be made available to Directors. Non-Executive Directors are covered by the Company's directors' indemnity insurance.
Pension contributions	None
Annual bonus and long-term incentive plans	Not eligible to participate in any annual bonus scheme or long-term incentive plan.
Termination payments	Not entitled to any compensation for loss of office.

All Executive Director service contracts and Non-Executive Director letters of appointment are available for inspection at the Company's registered office during normal hours of business, and will also be available at the Company's AGM on 6 February 2014 until the close of the meeting.

Policy on payment for loss of office

We are committed to ensuring a consistent approach so that we do not pay more than is necessary. In the event of an early termination of a contract, the policy is to seek to minimise any liability. When managing such situations, the Committee takes a range of factors into account including contractual obligations, shareholder interests, organisational stability and the need to ensure an effective handover.

Executive Directors are entitled to 12 months' base pay and contractual benefits if served notice by the Company. The Company is entitled to six months' notice of termination by UK Executive Directors and 12 months by Dr Böttcher.

In the normal course of events, the Executive Director will work his notice period.

In the event of termination for cause (e.g. gross misconduct) neither notice nor payment in lieu of notice (PILON) will be given and the Executive Director will cease to perform his services immediately.

In the event of termination for other reasons than cause (e.g. resignation) and the individual being requested to cease working before the end of his notice period PILON may be payable. If a portion of the notice period is served, the payment will be reduced on a pro-rata basis. Payments may be made on a phased basis and may be subject to mitigation. Alternatively, rather than making a PILON, the Company may instead place an Executive Director on garden leave for the duration of some or all of their notice period.

In redundancy situations the Committee will comply with prevailing relevant legislation. In addition, and consistent with market practice, the Company may pay a contribution towards the Executive Director's legal fees for entering into a statutory agreement and may pay a contribution towards fees for outplacement services as part of a negotiated settlement.

There is no provision for additional compensation on termination following a change of control nor liquidated damages of any kind.

Payment may also be made in respect of accrued benefits, including untaken holiday entitlement.

Executive bonus and share-based schemes will be managed as follows:

	'Good' leavers	Other leavers
Annual performance bonus	The Committee considers it appropriate for the Company to have discretion regarding the payment of a full or partial bonus in termination scenarios. When determining whether an Executive Director is a good leaver, the Committee will consider contractual terms, personal performance, the generally accepted definition of a good leaver and other factors outlined below.	Unless the Committee exercises its discretion to treat the Executive Director as a good leaver, no bonus will be payable.
PSP and matching awards under the existing DABS The principles as described apply in respect of the current version of the PSP and, subject to shareholder approval, the renewed version as well as the existing version of the DABS.	Participants will be a good leaver on ceasing employment due to injury, disability, ill-health, death, redundancy or the sale of the Company or business in which the participant is employed. Awards held by good leavers will normally vest after three years pro-rated for time and subject to the relevant performance measures. The Committee has discretion to accelerate vesting to the date employment ends. The Committee also has discretion to waive the time pro-rating requirement.	Unvested awards will lapse in full where the termination is on grounds of gross misconduct. In other circumstances unvested awards will lapse in full unless the Committee applies discretion to treat the Executive Director as a good leaver.
Deferred Annual Bonus Scheme (DABS) The principles as described apply in respect of the current version of DABS, and, subject to shareholder approval, the renewed version of this plan.	Unvested deferred share awards (which represent deferrals of earned bonus) vest in full on ceasing employment other than on grounds of gross misconduct either at the date of termination or on the normal vesting date, at the discretion of the Committee.	Unvested deferred share awards will lapse in full where the termination is on grounds of gross misconduct.

Remuneration report
continued

In considering the exercise of discretion as set out above, the Committee will take into account all relevant circumstances. In doing so, factors that the Committee may take into account shall include, but not be limited to, considering the best interests of the Company, whether the Executive Director has presided over an orderly handover, the contribution of the Executive Director to the success of the Company during their tenure, the need to ensure continuity, the need to compromise any claims that the Executive Director may have, whether the Executive Director received a PILON payment and whether, had the Executive Director served out their notice, a greater proportion of the outstanding award may have vested.

On a corporate event affecting the Company, the rules of the current PSP and DABS, as previously approved by shareholders, and, subject to approval at the AGM on 6 February 2014, the rules of the renewed PSP and DABS, will apply. A corporate event will include:

- a takeover of the Company;
- a company or a person, already having control, making a general offer to acquire shares in the Company;
- a voluntary winding-up; and
- under the rules of the new plans if the Board so determines, a de-merger or other similar event materially affecting the value of shares.

In summary, awards under the PSP and matching awards under the DABS will vest subject to the performance conditions and, unless the Board determines otherwise, time pro-rating. Deferred awards under the DABS, which represent previously earned bonuses, will vest in full. On a variation of share capital, a de-merger, a sale of a substantial part of the Group's business or similar event, the Committee may make such adjustment to awards as it considers appropriate.

In respect of the Share Incentive Plan, the same leaver conditions will be applied as those applied to all employees.

In the event of death in service, the arrangements for the Executive Directors provide lump sums for the purchase of dependants' pensions of the greater of eight times salary or the value of the pension fund, in addition to which a lump sum of four times salary is payable.

The Company may enter into new contractual arrangements with an Executive Director in connection with the termination of employment, including (but not limited to) settlement of claims, confidentiality, restrictive covenants and/or consultancy arrangements, where the Committee determines it necessary or appropriate to do so. Appropriate disclosure of any such arrangement will be made.

Consideration of conditions elsewhere in the Company

The Committee has oversight of the main compensation structures throughout the Group and actively considers the relationship between general changes to employees' remuneration and Executive Director reward. When considering potential changes to Executive Director remuneration the Committee is provided with comparative employee information, (e.g. average salary reviews across the Group).

The Committee does not consider it appropriate to consult directly with employees when formulating Executive Director reward policy. However, it does take into account information provided by the Group HR Director and feedback from our global employee satisfaction survey, which includes questions about remuneration.

Consideration of shareholder views

The Committee is strongly committed to an open and transparent dialogue with shareholders on remuneration matters. We believe that it is important to meet regularly with our key shareholders to understand their views on our remuneration arrangements and discuss our approach going forward.

During the year we consulted with the Company's largest shareholders and the main shareholder representative bodies. Their views have been instrumental in shaping the changes to the remuneration policy described elsewhere in this report.

In particular, and as outlined in the letter from the Remuneration Committee Chairman, the Committee noted ongoing shareholder concern regarding the continued use of deferred bonus matching awards. As a result these will no longer be awarded in respect of bonuses achieved for the year commencing 1 October 2013 and subsequently.

The Committee has also taken account of market practice and general investor views in recommending increased shareholding requirements and an update to the rules of the PSP and DABS that will include the introduction of malus provisions.

The Committee will continue to engage with shareholders going forward and will aim to consult on any material changes to the application of the approved Policy or proposed changes to the Policy.

The Committee may make minor changes to the Policy that do not have a material advantage to Executive Directors without seeking shareholder approval.

The Annual Report on Remuneration for the year ended 30 September 2013

The following section sets out the Directors' remuneration for the financial year ended 30 September 2013. The following information has been audited by PricewaterhouseCoopers LLP:

- single total figure of remuneration;
- retirement benefits;
- scheme interests awarded between 1 October 2012 and 30 September 2013;
- payments to past Directors;
- loss of office payments; and
- Directors' shareholdings.

Single total figure of remuneration

Executive Directors

Executive Directors	**Y/E 30 Sep 2013 Salary £000**	Y/E 30 Sep 2012 Salary £000	**Y/E 30 Sep 2013 Benefits (excluding retirement benefits) £000**	Y/E 30 Sep 2012 Benefits (excluding retirement benefits) £000	**Y/E 30 Sep 2013 Annual bonus (cash + deferred) £000**	Y/E 30 Sep 2012 Annual bonus (cash + deferred) £000	**Y/E 30 Sep 2013 DABS (matching awards £000**	Y/E 30 Sep 2012 DABS (matching awards) £000	**Y/E 30 Sep 2013 PSP £000**	Y/E 30 Sep 2012 PSP £000	**Y/E 30 Sep 2013 Retirement benefits £000**	Y/E 30 Sep 2012 Retirement benefits £000	**Y/E 30 Sep 2013 Total remuneration £000**	Y/E 30 Sep 2012 Total remuneration £000
Peter Long	**850**	850	**26**	24	**1,369**	1,458	**4,742**	2,755	**2,710**	1,225	**425**	425	**10,122**	6,737
Johan Lundgren	**700**	695	**71**	88	**902**	970	**2,314**	1,113	**964**	436	**231**	229	**5,182**	3,531
William Waggott	**550**	540	**19**	18	**739**	762	**1,798**	929	**937**	310	**182**	178	**4,225**	2,737
Dr Volker Böttcher	**458**	453	**22**	18	**392**	511	**1,775**	849	**740**	283	**114**	113	**3,501**	2,227
Total	**2,558**	2,538	**138**	148	**3,402**	3,701	**10,629**	5,646	**5,351**	2,254	**952**	945	**23,030**	15,232

Notes

1 As stated in the 2012 Annual Report and Accounts Johan Lundgren and William Waggott were awarded salary increases on 20 October 2011 and 2 December 2011 respectively. The year ended 30 September 2012 columns therefore include both pre-review and post-review data.

2 To comply with the new legislation, benefits for the year ended 30 September 2013 include (where used) holiday travel concessions.

3 Annual bonus figures include a cash element of up to 50% and a deferred element of the remainder. The deferred element is used to allocate nil-cost options over TUI Travel PLC shares, which are deferred for at least three years. The deferred element is not subject to performance conditions.

4 As required by the new legislation the anticipated value of the DABS and PSP shares that will vest for the three-year period ended 30 September 2013 has been calculated using a share price of 365p, this being the three-month average for the year ended 30 September 2013. The DABS and PSP values on pages 94 and 95 of this Report are based on the 30 September 2013 share price of 367.7p as required by the Listing Rules of the Financial Conduct Authority.

5 Awards vest after the approval of the financial statements for the year ending 30 September and such awards relate to a performance period ending on the same date as those financial statements. Therefore, the figures in the 2013 DABS and 2013 PSP columns relate to awards that will vest in December 2013.

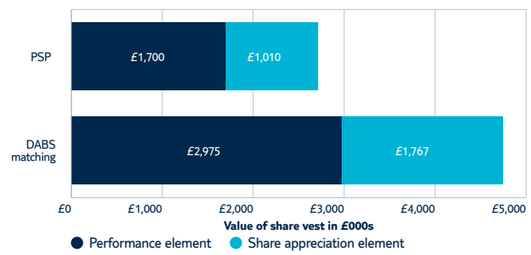
6 In calculating remuneration for Dr Volker Böttcher, payments made in EUR during the year ended 30 September 2013 have been converted at 1.1902 to 1 GBP, being the average exchange rate for the period 1 October 2012 to 30 September 2013. Payments made in EUR during the year ended 30 September 2012 have been converted at 1.2035 to 1 GBP, being the average exchange rate for the period 1 October 2011 to 30 September 2012.

Alignment of pay with performance

The remuneration policy at TUI Travel places substantial emphasis on variable pay. The Committee considers that this is aligned with the best interests of shareholders and ensures that Executive Directors will only receive significant remuneration for exceptional performance.

Over the last three years, the Executive Directors have delivered strong Company performance, driven by growth in profit and cash generation. For example, our EPS (as defined in the plan rules) has increased by over 22% per annum since 2010. Shareholders have seen this reflected in our share price, which has increased by almost 60% over this period taking our market capitalisation from £2.2bn to £4.1bn. We consider that the remuneration received for the year ended, 30 September 2013 recognises this performance. For example for Peter Long (see chart):

- Over 85% of his total remuneration was delivered in variable pay; and
- Of this variable amount, at least 30% was directly due to the significant increase in our share price over the last three years.



Remuneration report
continued

Benefits (excluding pension)
Benefits incorporate tax assessable benefits arising from the individual's employment.

- Peter Long. Car/car allowance, private healthcare cover and holiday travel concessions.
- Johan Lundgren. Car/car allowance, private healthcare cover and holiday travel concessions. School fees (£41,000) and tax advice were also provided as part of the ongoing support relating to his relocation to the UK from Sweden on 1 August 2009.
- William Waggott. Car/car allowance, private healthcare cover and holiday travel concessions. Retirement benefits do not include his deferred pension entitlements under the Final Salary section of the TUI Pension Scheme (UK). Please refer to the Retirement benefits section for further details.
- Dr Volker Böttcher. Provision of a fully-expensed company car and holiday travel concessions.

Retirement benefits
Total pension contributions or allowances accrued to the year ended 30 September 2013 were £952,000. Payments totalling £1,195,000 have been made as at the date of this report. These payments include contributions for the year ended 30 September 2012 which were accrued but not paid at the date of the 2012 Annual Report and Accounts.

William Waggott has deferred pension entitlements under the Final Salary section of the TUI Pension Scheme (UK). He ceased to be an active member on 3 September 2007 and therefore did not accrue further benefits during the year. The accrued benefits including deferred revaluation to 30 September 2013 are a pension of £60,837.45 per annum, payable from age 60. The transfer value as at 30 September 2013 calculated on the current basis is £1,402,198. The transfer value as at 30 September 2012 calculated on the basis in force at that time was £1,503,860. The only change in accrued benefits over the financial year is another year of deferred revaluation (fixed at 5% per annum). The accrued benefits at the start of the year were £57,940.43 per annum so there has been an increase in pension of £2,897.02 over the year. No contributions were made in the year ended 30 September 2013.

Annual bonus
The annual bonus is driven by the achievement of Group, business and individual targets which are weighted for each Executive Director. For the year ended 30 September 2013 the achievement of financial targets represented up to 80% of the bonus awarded with the balance being determined by the achievement of individual objectives.

The financial element is weighted to the achievement of profit and cash targets. These are set by the Committee annually with reference to the Company's five-year strategic plan, analyst profit forecasts and cashflow performance. The targets are designed to be stretching, drive improved results and align delivery with shareholders' expectations. The specific financial targets are considered by the Committee to be commercially sensitive.

The individual business objectives were determined with consideration to the strategic goals set for each Executive Director by the Board. As is the case for all senior management in the Group, objectives were set under the strategic drivers described on page 15 – content, brands and distribution, technology, growth and scale and people. Performance against these objectives was reviewed by the Committee against quantifiable individual performance metrics.

As reported earlier the Company has had a very successful year and this is reflected in the level of bonus awards.

The bonus weightings for the year ended 30 September are detailed below:

	Bonus weightings				
Executive Directors	Group Profit/Cash	Group Average Headroom Cash	Source Market Profit/Cash	Mainstream Profit	Individual Business Objectives
Peter Long	65%	15%	–	–	20%
Johan Lundgren	65%	15%	–	–	20%
William Waggott	65%	15%	–	–	20%
Dr Volker Böttcher	10%	–	55%	10%	25%

Based on these weightings the performance levels were:

	Bonus results as % of maximum opportunity for each element				
Executive Directors	Group Profit/Cash	Group Average Headroom Cash	Source Market Profit/Cash	Mainstream Profit	Individual Business Objectives
Peter Long	100%	100%	–	–	60%
Johan Lundgren	100%	100%	–	–	60%
William Waggott	100%	100%	–	–	80%
Dr Volker Böttcher	100%	–	64%	100%	65%

The subsequent awards are:

	Overall bonuses for year ended 30 September 2013			
Executive Directors	Max bonus as % of salary	Total bonus as % of max	Total bonus as % of salary	Total bonus £000
Peter Long	175%	92.0%	161.0%	1,369
Johan Lundgren	140%	92.0%	128.8%	902
William Waggott	140%	96.0%	134.4%	739
Dr Volker Böttcher	120%	71.3%	85.6%	392

Up to 50% of each Executive Director's annual performance bonus will be deferred into shares for three years on 12 December 2013. It is anticipated that a matching award will be made on the same date as follows:

Executive Directors	Estimated value of award £000
Peter Long	2,737
Johan Lundgren	1,803
William Waggott	1,478
Dr Volker Böttcher	–

Long-term incentives
Deferred Annual Bonus Scheme (DABS)
The DABS shares awarded on 6 December 2010 will be released on 10 December 2013. The vesting of the matching shares is subject to achievement of the following performance conditions over the three-year performance period and continued employment.

Measure	Target	Weighting	Achievement
A performance hurdle of ROIC requiring ROIC to be on average at least equal to WACC.			This condition was achieved.
Growth in the Company's EPS (as defined in the plan rules) in relation to the growth in UK RPI.	Average annual EPS growth in excess of RPI growth of: • less than 4% results in nil achievement • between a threshold level of 4% to 13% results in achievement between 10% and 100% on a straight-line basis • greater than 13% results in 100% achievement	75%	EPS growth in excess of RPI for the three-year performance period was 69.35%. This performance measure was therefore achieved at 100%.
The Company's ranking of total shareholder return (TSR) performance relative to the TSR performance of the companies in the FTSE 100 ranked 30th to 100th by market capitalisation.	Ranking: • below median results in nil achievement • between median and upper quartile results in achievement between 15% and 100% on a straight-line basis • above upper quartile results in 100% achievement	25%	The Company's achieved ranking was 16th out of 71. This performance measure was therefore achieved at 100%.

Therefore the overall result is that a vesting level of 100% was achieved.

Performance Share Plan (PSP)
The PSP shares awarded on 6 December 2010 will be released on 10 December 2013. The vesting of the shares will be subject to three performance conditions.

Measure	Target	Weighting	Achievement
A performance hurdle of ROIC requiring ROIC to be on average at least equal to WACC.			This condition was achieved.
Growth in the Company's EPS (as defined in the plan rules) in relation to the growth in UK RPI.	Average annual EPS growth in excess of RPI growth of: • less than 4% results in nil achievement • between a threshold level of 4% to 13% results in achievement between 10% and 100% on a straight-line basis • greater than 13% results in 100% achievement	50%	EPS growth in excess of RPI for the three-year performance period was 69.35%. This performance measure was therefore achieved at 100%.
The Company's ranking of total shareholder return (TSR) performance relative to the TSR performance of the companies in the FTSE 100 ranked 30th to 100th by market capitalisation.	Ranking: • below median results in nil achievement • between median and upper quartile results in achievement between 15% and 100% on a straight-line basis • above upper quartile results in 100% achievement	50%	The Company's achieved ranking was 16th out of 71. This performance measure was therefore achieved at 100%.

Therefore the overall result is that a vesting level of 100% was achieved.

Remuneration report
continued

Single total figure of remuneration

Non-Executive Directors

Non-Executive Directors	Y/E 30 Sep 2013 Fees £000	Y/E 30 Sep 2012 Fees £000	Y/E 30 Sep 2013 Total remuneration £000	Y/E 30 Sep 2012 Total remuneration £000
Friedrich Joussen (Chairman)	163	–	163	–
Sir Michael Hodgkinson (Deputy Chairman)	200	200	200	200
Horst Baier	55	55	55	55
Tony Campbell	55	55	55	55
Clare Chapman	–	3	–	3
Bill Dalton	–	43	–	43
Sebastian Ebel	29	–	29	–
Rainer Feuerhake	20	55	20	55
Dr Michael Frenzel (Outgoing Chairman)	145	300	145	300
Janis Kong	55	19	55	19
Coline McConville	65	58	65	58
Minnow Powell	70	70	70	70
Dr Erhard Schipporeit	55	55	55	55
Dr Albert Schunk	55	55	55	55
Harold Sher	55	55	55	55
TOTAL	1,022	1,023	1,022	1,023

Scheme interests awarded between 1 October 2012 and 30 September 2013

Awards under the DABS and PSP were made on 6 December 2012, in respect of the preceding financial year.

Under the DABS, each Executive Director deferred 50% of their annual bonus into deferred shares for a three-year period. DABS matching shares were awarded at a ratio of four matching shares to one deferred share. The vesting of the DABS matching shares is subject to continued employment and the achievement of stretching performance conditions over a three-year period to 30 September 2015.

Awards made under the DABS on 6 December 2012 are summarised below:

DABS deferred award

Executive Directors	Date of award	Number of nil-cost share options awarded	Face value of award £000
Peter Long	06-Dec-12	256,646	729
Johan Lundgren	06-Dec-12	170,809	485
William Waggott	06-Dec-12	134,207	381
Dr Volker Böttcher	06-Dec-12	87,886	250

DABS matching award

Executive Directors	Date of award	Number of nil-cost share options awarded	Face value of award £000	Threshold value of award £000	Threshold value of award as % of max award
Peter Long	06-Dec-12	1,026,584	2,915	364	12.5%
Johan Lundgren	06-Dec-12	683,236	1,940	243	12.5%
William Waggott	06-Dec-12	536,828	1,525	191	12.5%
Dr Volker Böttcher	06-Dec-12	351,544	998	125	12.5%

Notes

1 DABS matching awards will not be granted in respect of deferral of bonuses awarded for the year commencing 1 October 2013 or subsequently, as per the Policy.

2 DABS awards were allocated on 6 December 2012 using the mid-market share price (284.0p) of TUI Travel PLC shares on the date immediately preceding the allocation date.

3 In calculating remuneration for Dr Volker Böttcher, share awards made on 6 December 2012 have been converted at 1.2315 EUR to 1 GBP, being the Financial Times closing mid-rate on the date immediately preceding the allocation date.

Under the PSP, shares were awarded on 6 December 2012 which are also subject to continued employment and the achievement of stretching performance conditions over a three-year period to 30 September 2015. The awards are summarised below:

PSP

Executive Directors	Date of award	Number of nil-cost share options awarded	Face value of award £000	Face value of award as % of base salary	Threshold value of award £000	Threshold value of award as % of max award
Peter Long	06-Dec-12	598,591	1,700	200%	213	12.5%
Johan Lundgren	06-Dec-12	295,774	840	120%	105	12.5%
William Waggott	06-Dec-12	232,394	660	120%	83	12.5%

No PSP award was made to Dr Volker Böttcher.

Notes

1 PSP awards were allocated on 6 December 2012 using the mid-market share price (284.0p) of TUI Travel PLC shares on the date immediately preceding the allocation date.

Performance measures

The following performance measures apply to the DABS matching shares and PSP shares awarded on 6 December 2012.

- Up to half of the awards will vest based on growth in the Company's reported EPS (as defined in the plan rules) in excess of growth in the UK Retail Price Index (RPI), as follows:

Average annual EPS growth in excess of RPI growth	Proportion of award that vests
Less than 4%	0%
Between 4% and 13% (inclusive)	Between 10% and 100% on a straight-line basis
Greater than 13%	100%

- Up to one-quarter of awards will vest based on the Group's TSR performance relative to an average of the TSR performance of an index of international travel and leisure companies which are considered the most relevant peers in terms of size, global scope, business type and exposure to external factors. The companies included in the index are:

1 Aer Lingus Group
2 Air Berlin
3 Air France-KLM
4 Carnival
5 Club Mediterranee
6 Deutsche Lufthansa
7 easyJet
8 Expedia
9 Finnair
10 FirstGroup
11 Flight Centre Travel Group
12 Hertz Global Holdings
13 International Consolidated Airlines Group
14 Kuoni Reisen Holding
15 National Express Group
16 Norwegian Air Shuttle
17 Pierre & Vacances
18 Priceline.com
19 Royal Caribbean Cruises
20 Ryanair Holdings
21 Stagecoach Group
22 Thomas Cook Group
23 Wotif.com Holdings

The vesting schedule for the portion of awards subject to TSR performance is as follows:

TUI Travel PLC's TSR Performance	Proportion of award that vests
Below index	0%
Between index and index +8% per annum	Between 15% and 100% on a straight-line basis
Exceeding index + 8% per annum	100%

- Up to one-quarter of the awards will vest based on the Company's ROIC performance over the performance period.

Average annual ROIC	Proportion of award that vests
Below 14.1%	0%
Between 14.1% and 15.6%	Between 15% and 100% on a straight-line basis
Greater than 15.6%	100%

A performance hurdle of ROIC (requiring ROIC to be on average at least equal to WACC measured over three years) is used to ensure that the long-term incentive awards pay out only when shareholder value is being created over the performance period. If the ROIC/WACC performance hurdle is not met no shares will vest.

The Committee assesses the EPS and the ROIC tests based on audited information. Independent calculations of TSR performance for outstanding awards are performed by Deloitte.

Share Incentive Plan

Peter Long, Johan Lundgren and Will Waggott are participants in the HMRC-approved TUI Travel PLC Share Incentive Plan. During the year ended 30 September 2013:

- Peter Long did not purchase any partnership shares and was not awarded any matching shares in the year.
- Johan Lundgren purchased 403 partnership shares (at a share price of 372p) and was awarded 100 matching shares (at a share price of 372p).
- Will Waggott purchased 403 partnership shares (at a share price of 372p) and 154 dividend shares (at a share price of 304p) and was awarded 101 matching shares (at a share price of 372p).

Payments to past Directors

There have been no payments to former Directors during the year.

Payments for loss of office

During the year there have been no payments made to Directors for loss of office.

Statement of Executive Directors' shareholding and share interests

The Executive Directors are subject to a shareholding obligation. As explained in the letter from the Remuneration Committee Chairman the requirement will increase on 1 October 2014. From this date Peter Long is expected to hold shares at least equal to 400% of his base salary. The remaining Executive Directors are expected to hold shares at least equal to 200% of base salary. As shown below the Executive Directors comply with the revised holding requirement.

Executive Directors	Shares held outright at 30 September 2013	Shares held outright at 30 September 2013 as a percentage of salary based on share price of 367.7p as at 30 September 2013 and salary as at 30 September 2013	Outstanding scheme interests at 30 September 2013: Outstanding, unvested scheme interests subject to performance measures	Outstanding, unvested scheme interests not subject to performance measures	Total shares subject to outstanding scheme interests	Total of all share interests and outstanding scheme interests at 30 September 2013
Peter Long	3,025,860	1309%	6,505,148	1,033,005	7,538,153	10,564,013
Johan Lundgren	533,467	280%	3,608,892	549,724	4,158,616	4,692,083
William Waggott	556,620	372%	2,752,323	465,608	3,217,931	3,774,551
Dr Volker Böttcher	376,726	303%	2,005,498	379,760	2,385,258	2,761,984

Notes

1 Interests in shares held at 30 September 2013 include shares held by connected persons.

2 All outstanding scheme interests take the form of rights to receive shares (nil-cost share options or conditional share awards).

3 Details of each scheme interest awarded under the DABS and PSP held by each Executive Director are set out later in this Report.

4 In calculating shareholding as a percentage of salary for Dr Volker Böttcher, the salary has been converted at 1.1902 to 1 GBP, being the average exchange rate for the period 1 October 2012 to 30 September 2013.

Remuneration report
continued

Deferred Annual Bonus Scheme (DABS)

Awards made under the DABS, and which remain outstanding at 30 September 2013, are outlined below:

Executive Directors	DABS shares/ nil-cost options held at 1 October 2012	**DABS nil-cost options awarded during the year ended 30 September 2013**	Award date	Market price per share at award	**DABS shares vested during the year ended 30 September 2013**	Market price per share at vesting	Market value at vesting (£)	Planned/ Actual vesting date	DABS shares released during the year ended 30 September 2013	Release date	DABS shares lapsed during the year ended 30 September 2013	**Maximum DABS shares/ nil-cost options held at 30 September 2013**	**Maximum value based on share price of 367.7p at 30 September 2013 (£)[3]**
Peter Long	154,592[1,4]		02.12.09	243.30p				02.12.09	154,592	04.12.12		**–**	**–**
	1,048,088[2]		02.12.09	243.30p	**786,066**	350.50p	2,755,161	13.05.13	786,066	13.05.13	262,022	**–**	**–**
	324,781[1]		06.12.10	229.00p				10.12.13				**324,781**	**1,194,220**
	1,299,124[2]		06.12.10	229.00p				10.12.13				**1,299,124**	**4,776,879**
	451,578[1]		07.12.11	164.70p				07.12.14				**451,578**	**1,660,452**
	1,806,312[2]		07.12.11	164.70p				07.12.14				**1,806,312**	**6,641,809**
		256,646[1]	06.12.12	284.00p				06.12.15				**256,646**	**943,687**
		1,026,584[2]	06.12.12	284.00p				06.12.15				**1,026,584**	**3,774,749**
Total	5,084,475	**1,283,230**			**786,066**		2,755,161		940,658		262,022	**5,165,025**	**18,991,796**
Johan Lundgren	62,459[1,4]		02.12.09	243.30p				02.12.09	62,459	04.12.12		**–**	**–**
	423,452[2]		02.12.09	243.30p	**317,589**	350.50p	1,113,149	13.05.13	317,589	13.05.13	105,863	**–**	**–**
	158,515[1]		06.12.10	229.00p				10.12.13				**158,515**	**582,860**
	634,060[2]		06.12.10	229.00p				10.12.13				**634,060**	**2,331,439**
	220,400[1]		07.12.11	164.70p				07.12.14				**220,400**	**810,411**
	881,600[2]		07.12.11	164.70p				07.12.14				**881,600**	**3,241,643**
		170,809[1]	06.12.12	284.00p				06.12.15				**170,809**	**628,065**
		683,236[2]	06.12.12	284.00p				06.12.15				**683,236**	**2,512,259**
Total	2,380,486	**854,045**			**317,589**		1,113,149		380,048		105,863	**2,748,620**	**10,106,677**
William Waggott	52,137[1,4]		02.12.09	243.30p				02.12.09	52,137	04.12.12		**–**	**–**
	353,472[2]		02.12.09	243.30p	**265,104**	350.50p	929,190	13.05.13	265,104	13.05.13	88,368	**–**	**–**
	123,144[1]		06.12.10	229.00p				10.12.13				**123,144**	**452,800**
	492,576[2]		06.12.10	229.00p				10.12.13				**492,576**	**1,811,202**
	208,257[1]		07.12.11	164.70p				07.12.14				**208,257**	**765,761**
	833,028[2]		07.12.11	164.70p				07.12.14				**833,028**	**3,063,044**
		134,207[1]	06.12.12	284.00p				06.12.15				**134,207**	**493,479**
		536,828[2]	06.12.12	284.00p				06.12.15				**536,828**	**1,973,917**
Total	2,062,614	**671,035**			**265,104**		929,190		317,241		88,368	**2,328,040**	**8,560,203**
Dr Volker Böttcher	101,819[1]		02.12.09	243.30p	**101,819**	278.10p	283,159	04.12.12	101,819	04.12.12		**–**	**–**
	407,276[2]		02.12.09	243.30p	**305,457**	278.10p	849,476	04.12.12	305,457	04.12.12	101,819	**–**	**–**
	121,568[1]		06.12.10	229.00p				10.12.13				**121,568**	**447,006**
	486,272[2]		06.12.10	229.00p				10.12.13				**486,272**	**1,788,022**
	170,306[1]		07.12.11	164.70p				07.12.14				**170,306**	**626,215**
	681,224[2]		07.12.11	164.70p				07.12.14				**681,224**	**2,504,861**
		87,886[1]	06.12.12	284.00p				06.12.15				**87,886**	**323,157**
		351,544[2]	06.12.12	284.00p				06.12.15				**351,544**	**1,292,627**
Total	1,968,465	**439,430**			**407,276**		1,132,635		407,276		101,819	**1,898,800**	**6,981,888**
Grand Total	**11,496,040**	**3,247,740**			**1,776,035**		**5,930,135**		**2,045,223**		**558,072**	**12,140,485**	**44,640,564**

Notes

1 DABS deferred award: The deferred element of annual bonus, subject to forfeiture for gross misconduct, bankruptcy or certain other circumstances in accordance with the scheme rules.

2 DABS matching award: A multiple of the deferred award, subject to continued employment to the release date and performance conditions over the three-year vesting period as follows:

- The performance measures and targets applicable for matching awards granted in 2010 are described in the single total figure of remuneration section. Matching awards granted in 2009 were subject to the same performance measures and targets.
- The performance measures and targets applicable for matching awards granted in 2012 are described in the Scheme interests awarded section. Matching awards granted in 2011 are subject to the same performance measures and targets.

3 The maximum value is based on the 30 September 2013 share price of 367.7p. The anticipated value of the DABS shares that will vest for the three-year period ended 30 September 2013 (see page 89) has been calculated using the three-month average for the year ended 30 September 2013 i.e. 365.0p.

4 During the financial year ended 30 September 2010 the Director and the Company agreed to enter into a joint election pursuant to section 431(1) of the Income Tax (Earnings and Pensions) Act 2003 in respect of this award. Consequently, the Remuneration Committee agreed to vest this award early and release sufficient shares to satisfy the tax liability arising from the joint election. The remaining shares were held by the Employee Benefit Trust on behalf of employees and were subject to claw-back conditions. They were released after the third anniversary of the award date in accordance with the scheme rules on 4 December 2012, on which date the market price of a share is as shown in the Market price per share at vesting column and the aggregate value of the shares released to the Executive Director is as shown in the Market value at vesting column.

Performance Share Plan (PSP)

Awards made under the Performance Share Plan, and which remain outstanding at 30 September 2013, are outlined below:

Executive Directors	PSP shares/ nil-cost options held at 1 October 2012	**PSP nil-cost options awarded during the year ended 30 September 2013**	Award date	Market price per share at award	**PSP shares vested and released during the year ended 30 September 2013**	Market price per share at vesting	Market value at vesting (£)	Planned/ Actual vesting and release date	**PSP shares lapsed during the year ended 30 September 2013**	**Maximum PSP shares/ nil-cost options held at 30 September 2013**	**Maximum value based on share price of 367.7p at 30 September 2013 (£)**
Peter Long	698,725		02.12.09	243.30p	**349,362**	350.50p	1,224,514	13.05.13	**349,363**	**–**	**–**
	742,358		06.12.10	229.00p				10.12.13		**742,358**	**2,729,650**
	1,032,179		07.12.11	164.70p				07.12.14		**1,032,179**	**3,795,322**
		598,591	06.12.12	284.00p				06.12.15		**598,591**	**2,201,019**
Total	2,473,262	**598,591**			**349,362**		1,224,514		**349,363**	**2,373,128**	**8,725,991**
Johan Lundgren	248,664		02.12.09	243.30p	**124,332**	350.50p	435,784	13.05.13	**124,332**	**–**	**–**
	264,192		06.12.10	229.00p				10.12.13		**264,192**	**971,434**
	850,030		07.12.11	164.70p				07.12.14		**850,030**	**3,125,560**
		295,774	06.12.12	284.00p				06.12.15		**295,774**	**1,087,561**
Total	1,362,886	**295,774**			**124,332**		435,784		**124,332**	**1,409,996**	**5,184,555**
William Waggott	176,736		02.12.09	243.30p	**88,368**	350.50p	309,730	13.05.13	**88,368**	**–**	**–**
	256,769		06.12.10	229.00p				10.12.13		**256,769**	**944,140**
	400,728		07.12.11	164.70p				07.12.14		**400,728**	**1,473,477**
		232,394	06.12.12	284.00p				06.12.15		**232,394**	**854,513**
Total	834,233	**232,394**			**88,368**		309,730		**88,368**	**889,891**	**3,272,130**
Dr Volker Böttcher	203,639		02.12.09	243.30p	**101,819**	278.10p	283,159	04.12.12	**101,820**	**–**	**–**
	202,615		06.12.10	229.00p				10.12.13		**202,615**	**745,015**
	283,843		07.12.11	164.70p				07.12.14		**283,843**	**1,043,691**
Total	690,097	**–**			**101,819**		283,159		**101,820**	**486,458**	**1,788,706**
Grand Total	5,360,478	**1,126,759**			**663,881**		2,253,187		**663,883**	**5,159,473**	**18,971,382**

Notes

1 PSP awards are subject to continued employment to the release date and performance conditions over the three-year vesting period as follows:

- The performance measures and targets applicable for PSP awards granted in 2010 are described in the single total figure of remuneration section. PSP awards granted in 2009 were subject to the same performance measures and targets.
- The performance measures and targets applicable for PSP awards granted in 2012 are described in the Scheme interests awarded section. PSP awards granted in 2011 are subject to the same performance measures and targets.

2 The maximum value is based on the 30 September 2013 share price of 367.7p. The anticipated value of the PSP shares that will vest for the three-year period ended 30 September 2013 (see page 89) has been calculated using the three-month average for the year ended 30 September 2013 i.e. 365.0p.

Remuneration report
continued

Statement of Non-Executive Directors' shareholdings

As at 30 September 2013, the Non-Executive Directors' interests in ordinary shares of the Company were:

Non-Executive Directors	Interests in shares held at 30 September 2013
Friedrich Joussen (Chairman)	–
Sir Michael Hodgkinson (Deputy Chairman)	20,000
Horst Baier	–
Tony Campbell	52,044
Sebastian Ebel	–
Janis Kong	15,000
Coline McConville	–
Minnow Powell	6,891
Dr Erhard Schipporeit	–
Dr Albert Schunk	–
Harold Sher	–

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and will be available for inspection before and during the Annual General Meeting on Thursday 6 February 2014.

During the year, the price of the Company's ordinary shares ranged between 401.5 pence and 232.0 pence and the mid-closing price on Monday 30 September 2013 was 367.7 pence.

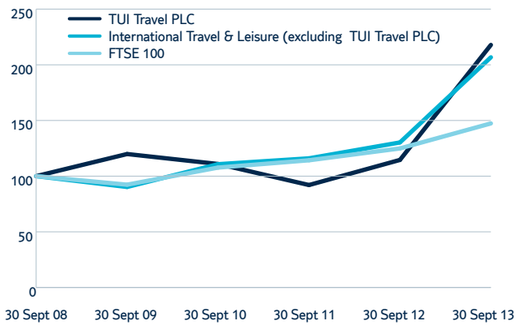
For the year ended 30 September 2013, Peter Long received and retained Non-Executive Directors' fees in respect of an appointment with Rentokil Initial PLC of £60,000 (2012: £63,750). No other Executive Director currently holds an external non-executive director post.

On 4 October 2013, William Waggott and Tony Campbell were allocated 44 and 525 additional shares respectively under the Dividend Reinvestment Plan (open to all shareholders under the same terms).

There have been no further changes in the interests of the Directors between 30 September 2013 and the date of approval of the 2013 Annual Report and Accounts.

Performance graph and table

The graph below compares the TSR performance of TUI Travel PLC, assuming dividends are re-invested, with the TSR performance of an index of international travel and leisure companies. This index is considered by the Committee to be the most appropriate comparison reference for these purposes. From October 2011 this index has also been used for performance measurement under the Company's long-term incentive schemes. As a member of the FTSE 100, the performance of this index has also been shown.



The table below shows the historic levels of Peter Long's pay (single figure of total remuneration) and annual variable and long-term incentive pay awards as a percentage of plan maxima.

Financial year	Single figure of annual remuneration £000	Annual variable pay awarded as percentage of maximum	Value of vested long-term incentive awards as percentage of maximum
2012/13	**10,122**	**92%**	**100%**
2011/12	6,737	98%	65%
2010/11	4,935	100%	65%
2009/10	6,309	50%	74%
2008/09	5,041	100%	96%

Notes

For the financial year ended 30 September 2010, the performance targets for the annual bonus were met in full. However, the Committee decided that, in the context of an appropriate claw-back of prior year bonus due to the profit restatement and substantial one-off costs during the year, the cash portion of the bonus would not be payable.

Percentage change in remuneration of CEO

We have an international workforce of more than 55,000. The Committee considers the most meaningful comparator group to be the UK Group Reward Population (GRP) whose remuneration is managed on a central (rather than local) basis. There were 94 managers in this group at 30 September 2013.

The following table shows the percentage change in remuneration between the years ended 30 September 2012 and 30 September 2013 for the CEO and comparator group.

	Salary	Benefits	Annual bonus
Comparator group percentage change including travel concessions	2.9%	14.3%	14.0%
Comparator group percentage change excluding travel concessions	2.9%	2.3%	14.0%
CEO percentage change including travel concessions	0.0%	8.3%	-6.1%
CEO percentage change excluding travel concessions	0.0%	0.0%	-6.1%

Relative importance of spend on pay

	Remuneration paid to or receivable by all employees of the Group £m	Distributions to shareholders by way of dividends £m
Year ended 30 September 2013	**1,827**	**132**
Year ended 30 September 2012	1,734	128
Percentage change	5%	3%

Implementation of the Policy

The Policy will apply to any remuneration and loss of office payments made on or after 1 October 2014.

Remuneration for the year commencing 1 October 2013

Salary

The salaries that are effective from 1 October 2013 are:

	Annual salary
Peter Long	£850,000
Johan Lundgren	£700,000
William Waggott	£550,000
Dr Volker Böttcher	€400,000

Benefits (excluding pension)

The benefits that are effective from 1 October 2013 are:

- Peter Long. Car/car allowance, private healthcare cover and holiday travel concessions.
- Johan Lundgren. Car/car allowance, private healthcare cover and holiday travel concessions. The support relating to his relocation to the UK from Sweden on 1 August 2009 will decrease during the year.
- William Waggott. Car/car allowance, private healthcare cover and holiday travel concessions.
- Dr Volker Böttcher. Provision of a fully-expensed company car and holiday travel concessions.

Retirement benefits

Retirement benefits will continue to be applied as per the Policy and application in previous years.

Annual Bonus

The Committee has set stretching targets focused on both profit and cash performance for the business. Although the target detail is considered commercially sensitive the measures and weightings for the year commencing 1 October 2013 are:

	Group Profit/Cash	Source Market Profit/Cash	Mainstream Sector Profit	Individual Business Objectives
Peter Long	80%	–	–	20%
Johan Lundgren	80%	–	–	20%
Will Waggott	80%	–	–	20%
Dr Volker Böttcher	20%	45%	15%	20%

DABS

As stated on page 90 it is anticipated that DABS deferred awards and matching awards will be made in December 2013 (in respect of the financial year ended 30 September 2013). The performance measures and targets for the matching awards are outlined on page 93.

PSP

It is anticipated that a PSP award will be made as follows:

	Anticipated Value of December 2013 award £000
Peter Long	1,275
Johan Lundgren	700
William Waggott	550
Dr Volker Böttcher	–

The performance measures and targets are as outlined on page 93 of this report.

Consideration by the Directors of matters relating to Directors' remuneration

The Committee advises the Board on overall remuneration policy. It also determines, on behalf of the Board, and with the benefit of advice from external consultants and members of the HR Department, the remuneration of the Executive Directors and other members of the Group Management Board.

The Committee formulates and applies the Policy with consideration to the prevailing economic climate in the major economies in which the Group operates. It also observes the spirit of the Group's core values which cultivate responsible leadership in the external and internal social environment. Consequently the Committee closely considers the Company's performance in building both shareholder value and a secure future for all stakeholders.

The activities of the Committee are governed by its Terms of Reference which were last revised on 25 March 2013 and can be found on the Company's website.

The Committee currently comprises three Non-Executive Directors each of whom the Company deems to be independent. All three were in place throughout the whole year.

- Coline McConville – Chairman
- Sir Michael Hodgkinson
- Janis Kong

The Company's major shareholders are supportive of Sir Michael Hodgkinson continuing in his role whilst an orderly succession plan is put in place.

The following resigned from the Committee during the year:

- Tony Campbell (1 October 2012)
- Rainer Feuerhake (8 February 2013)
- Dr Michael Frenzel (25 March 2013)

Remuneration report
continued

No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee. The three independent members of the Committee have no conflicts of interest arising from cross-directorships. Members of the Committee have no day-to-day involvement in the running of the Company.

The Committee met six times during the year. Details of attendance can be found in the Corporate Governance Report (see page 68). During the year, the Committee carried out the following activities:

- Review of the Executive Director and GMB Remuneration Policy and review of individuals' reward arrangements in line with the Policy.
- Consultation with shareholders and external bodies regarding the Policy.
- Assessment of the achievement of Executive Directors' and GMB members' performance against their annual bonus objectives.
- Assessment of performance for the vesting of the 2009 Performance Share Plan and Deferred Annual Bonus Scheme awards.
- Approval of the Directors' Remuneration Report for the year ended 30 September 2012.
- Consideration of market trends in executive remuneration.
- Deliberation about corporate governance developments and their potential impact.
- Review of the executive shareholding guidelines and their application.
- Agreement of the Annual Bonus, PSP and DABS performance targets for the year ended 30 September 2013.

During the year the Committee considered the results of a Remuneration Committee Effectiveness Survey. No significant concerns were raised.

Advisors

While it is the Committee's responsibility to exercise independent judgement, the Committee does request advice from management and professional advisers, as appropriate, to ensure that its decisions are fully informed. Advice or services were provided to the Committee during the year by:

- Deloitte LLP (Deloitte);
- Andrew John – Company Secretary; (now Group Director – Secretariat, Health & Safety and Risk);
- Peter Long – Chief Executive;
- Jacky Simmonds – Group HR Director; and
- Tim Taylor – Group Reward Director.

The Group HR Director has direct access to the Chairman of the Committee and, together with the Group Reward Director, advised the Committee on reward matters relating to the Executive Directors and members of the GMB and broader Group HR strategy and policy.

The Chief Executive attends meetings of the Committee to make recommendations relating to the performance and remuneration of his direct reports and the Company Secretary acts as Secretary to the Committee. Executives are not in attendance when their own remuneration is considered.

The Committee is authorised by the Board to seek any information it requires from any employee of the Group. The Committee is also authorised to require the attendance of any Director at any of its meetings.

During the year, the Committee received independent advice on executive remuneration matters from Deloitte. Deloitte received £128,000 in fees for these services. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee appointed Deloitte to the role of independent advisers to the Committee in 2008, following an interview process. The Committee is comfortable that the Deloitte engagement partner and team, which provide remuneration advice to the Committee, do not have connections with TUI Travel PLC that may impair their independence or objectivity. In addition, during the year ended 30 September 2013, Deloitte also provided various tax services to the Company.

Herbert Smith Freehills LLP was appointed to provide advice on law and regulation in relation to share scheme matters (which is provided to the Company and is available to the Committee). Legal fees relate to advice provided to the Company and not the Committee, and are charged on a time-cost basis. Herbert Smith Freehills LLP also provides general legal advice to the Company.

Statement of shareholder voting

At the Annual General Meeting of TUI Travel PLC on Thursday 7 February 2013 the results of the vote regarding Resolution 2 (to approve the Directors' Remuneration Report) were:

Votes For		Votes Against			
Number	%	Number	%	Votes Total	Votes Withheld
921,085,873	95.23	46,105,489	4.77	967,191,362	9,101,232

The Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and signed on its behalf by:

Coline McConville
Chairman of the Remuneration Committee
9 December 2013

Other statutory disclosures

Pages 66 to 102 inclusive (together with the sections of the Annual Report incorporated by reference) form part of the Directors' Report which is presented in accordance with, and with reliance upon, applicable English company law. The liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Other information, which forms part of the Directors' Report, can be found in the following sections of the Annual Report:

Information	Location in Annual Report
Acquisitions	Financial statements – Note 13
Audit Committee Report	Page 73
Board and Committee Membership	Page 66
Corporate Governance Report	Page 68
Directors' biographies	Page 66
Directors' responsibility statements	Page 102
Financial risk management	Page 42
Future developments	Page 63
Greenhouse gas emissions	Page 30
Nomination Committee Report	Page 78
Other statutory disclosures	Page 99
Our people	Page 34
Pension schemes	Financial statements – Note 6(C)
Post balance sheet events	Financial statements – Note 35
Results and dividends	Page 8 and Page 54 to 63
Share capital	Financial statements – Note 24
Social responsibility	Page 26
Sustainable development	Page 26

Political donations

The Group made no political contributions during the year (2012: £nil).

Directors and their interests

Details of Directors and their biographies can be found in a separate section called 'Board of Directors' on page 66 and Directors' interests are given in the Remuneration Report on pages 93 and 96.

Powers for the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the AGM held in February 2013, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares (2012: no shares) have been bought back under this authority during the year ended 30 September 2013. This standard authority is renewable annually and the Directors will seek to renew this authority at the AGM to be held on 6 February 2014. The Directors were granted authority in 2013 to allot relevant securities up to a maximum nominal amount of £74,534,044.60. That authority will apply until the conclusion of the 2014 AGM.

At the AGM in February 2014, shareholders will be asked to grant an authority to allot shares in the capital of the Company up to a maximum nominal amount of £74,534,044.60 representing the ABI guideline limit of approximately 66% of the Company's issued ordinary share capital. Of this amount, 372,670,223 shares (representing approximately 33% of the Company's issued ordinary share capital) can only be allotted pursuant to a rights issue. The power will last until the conclusion of the AGM in 2015 or if earlier on 7 May 2015. The Directors have no present intention of exercising this authority but they consider it appropriate to maintain the flexibility that this authority provides.

A special resolution will also be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 111,801,067 ordinary shares and sets the minimum and maximum prices which will be paid. This authority will expire at the end of the AGM held in 2015 or, if earlier, on 7 May 2015.

Directors' indemnity arrangements

Throughout the financial year and at the date of approval of these financial statements, the Company has purchased and maintained Directors' and Officers' liability insurance in respect of itself and its Directors whether in their capacity as Directors of the Company or associated companies. The Directors also have the benefit of indemnity provisions in the Company's Articles of Association. These provisions are qualifying third-party indemnity provisions as defined in section 234 of the Companies Act 2006.

Significant agreements – change of control

The Companies Act 2006 requires us to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company.

Relationship Agreement with TUI AG

The Relationship Agreement between TUI AG and TUI Travel, dated 29 June 2007, includes the principle that TUI Travel will operate independently of TUI AG and records the understanding between TUI AG and TUI Travel regarding the relationship between them and the governance of TUI Travel. The Relationship Agreement will remain in force until either the shares in TUI Travel are no longer traded on the London Stock Exchange, or TUI AG has less than 10% of the rights to vote at general meetings. In addition, in the event that another party acquires control of TUI AG during the term of the Relationship Agreement, TUI AG will lose certain rights under the Relationship Agreement including its rights in respect of the composition of the Board.

The Relationship Agreement contains restrictions on the acquisition by TUI AG of additional shares in TUI Travel which result in the increase of its shareholding to more than 55% of the voting rights on a fully-diluted basis (save where TUI AG makes a general offer to acquire all TUI Travel shares in issue). A number of bonds are held on TUI AG's behalf and, if converted at the conversion price set on the launch date, would give rise to 52,309,463 new shares. On a fully-diluted basis (if shares held by all bondholders were converted), TUI AG would have had a holding of 50% as at 30 September 2013. As a percentage of shares in issue, TUI AG's holding as at 30 September 2013 was 54.48% (2012: 56.26%) – see page 98 for an explanation of the reduction.

TUI AG has anti-dilution rights in respect of further issues of shares in TUI Travel other than on a pre-emptive basis. TUI Travel has also agreed that certain matters will require the prior approval of 80% of the Directors present at the meeting of the Board at which such matter is considered, including material changes to the business of any Group company, acquisitions and disposals of a value which exceeds £10m, the entry into, variation or redemption prior to their due date of any borrowing facilities and the approval of the annual budget.

Other statutory disclosures
continued

Bank credit facilities
Some bank facility agreements incorporate terms which give the lending banks the right to cancel all commitments to the Company and to declare all outstanding credits and accrued interest immediately due and payable if a change of control occurs. For the purpose of this agreement a change of control occurs if:

- any person or group of persons acting in concert gains control of the Company; or
- TUI AG and any persons acting in concert with it acquires or acquire 75% or more of the voting shares in the Company.

Specifically, the facilities affected are:

- a total of £1,120m bank revolving credit facilities which mature in June 2015;
- £185m of bonding and letter of credit facilities which mature in June 2015;
- £350m convertible bond due October 2014;
- £400m convertible bond due April 2017; and
- £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.

£350 million 6.0% convertible bonds
In September 2009, the Company issued £350 million of 6.0% convertible bonds with a conversion price set at 349.30p per share. The settlement took place on 5 October 2009. The convertible bonds contain terms which give the bondholders the right to redeem the bonds at their principal amount, together with accrued and unpaid interest up to the date of redemption, if a change of control occurs. For the purpose of the convertible bonds a change of control occurs if:

- following a takeover offer to acquire all or a majority of the shares in the Company being declared unconditional in all respects or becoming effective, the offeror and/or its associates have or will have more than 50% of the voting rights in the Company; or
- the Free Float of the Company is less than 30% of the issued ordinary shares for at least five consecutive dealing days (where the Free Float is all outstanding ordinary shares of the Company less those held by or on behalf of TUI AG, its associates and any persons acting in concert with it).

£400 million 4.90% convertible bonds
In April 2010, the Company issued £400 million of 4.90% convertible bonds with a conversion price set at 382.34 pence per share. The settlement took place on 27 April 2010. The convertible bonds contain terms which give the bondholders the right to redeem the bonds at their principal amount, together with accrued and unpaid interest up to the date of redemption, if a change of control occurs. For the purpose of the convertible bonds a change of control occurs if:

- following a takeover offer to acquire all or a majority of the shares in the Company being declared unconditional in all respects or becoming effective, the offeror and/or its associates have or will have more than 50% of the voting rights in the Company; or
- the Free Float of the Company is less than 30% of the issued ordinary shares for at least five consecutive dealing days (where the Free Float is all outstanding ordinary shares of the Company less those held by or on behalf of TUI AG, its associates and any persons acting in concert with it).

TUI AG subscribed, at the issue price, for 50% of the convertible bond offering to prevent the potential dilution of its majority shareholding.

£90 million of bonding facility agreements
Agreements between a number of surety companies and the Company relating to bonding facilities of £90 million currently provided to the Company contain terms which give the sureties the right to cancel all commitments to the Company and to declare all outstanding bonds immediately due and payable if a change of control occurs. For the purpose of this agreement a change of control occurs if:

- any person or group of persons acting in concert gains control of the Company; or
- TUI AG and any persons acting in concert with it acquires or acquire 75% or more of the voting shares in the Company.

£275 million partnership arrangements
In May 2011, the Company entered into a limited liability partnership arrangement and a Scottish limited partnership arrangement with three of its UK defined benefit pension schemes to address the ongoing funding and management of the pension schemes. Under the partnership arrangements, the Company committed to making payments of up to £275 million in 2026, if and to the extent that the pension schemes remain in deficit at that time. The partnership agreements contain terms which give the pension schemes the right to wind-up the partnerships and require an injection of up to £275 million by the Company if there is a restructuring or reorganisation of the assets of the Company which results in a reduction of the Company's consolidated net assets to less than £1,100 million following the occurrence of a change of control. For the purposes of the partnership agreements a change of control occurs if:

- following a takeover offer for the Company a person or group of persons acting in concert acquire more than 30% of the voting rights in the Company; or
- TUI AG and any persons acting in concert with it acquires or acquire 75% or more of the voting rights in the Company and/or the Company's listing is cancelled.

Restricted shares
235,391,523 ordinary shares of the Company, representing 20.87% of the Company's share capital on an undiluted basis (of which 206,488,962 shares had previously been transferred by TUI AG to two independent special purpose companies plus 28,902,561 shares which have over time been added under the Company's Dividend Reinvestment Plan) were restricted from being transferred. TUI AG remained entitled to receive the dividend yields from these shares and also kept the voting rights attached to them. TUI AG was also entitled to repurchase 148,424,474 shares (2012: 146,399,656 with 2,024,818 being added under the Company's Dividend Reinvestment Plan) by April 2013 at the latest and 86,967,049 of these shares – after an extension agreement taking effect as of 10 October 2013 and also replacing the first special purpose company with Deutsche Bank AG – by July 2016 at the latest.

In April 2013, an exchangeable bond for which the 148,424,474 shares formed the exchange property, reached maturity. Following the exchange process, 21,867,865 shares were returned to the market and 126,556,609 shares were transferred back to TUI AG. This resulted in an overall reduction in the voting rights of TUI AG of 21,867,865, i.e. from 56.44% to 54.48%.

In respect of the second special purpose company holding an interest in the Company's shares, in April 2010 the Company issued a £400m fixed rate 4.9% convertible bond, of which such independent special purpose company (Antium Finance Ltd) subscribed for 50%. TUI AG entered into a forward purchase agreement with Antium Finance Ltd for those £200m of convertible bonds (representing 86,967,049 shares), in order to prevent dilution of its majority shareholding. TUI AG is entitled to receive the interest coupon on these bonds and to purchase them. According to a new contractual arrangement dated 10 October 2013 Antium Finance Ltd has assigned its rights to Deutsche Bank AG and the entitlement of TUI AG to purchase the bonds is extended to July 2016 at the latest.

Significant shareholders
At the date of approval of the Annual Report & Accounts 2013, the Company had been notified of the following holdings in excess of 3% in its issued share capital.

Shareholder	Number of shares	Percentage (%)
TUI AG	609,120,138	54.48
BlackRock	35,150,817	3.14

Post balance sheet events
Details of post balance sheet events are included in Note 35 of the consolidated financial statements.

Going concern
After making appropriate enquiries, the Directors have reasonable expectation that the Company and Group have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

A further summary of funding and liquidity is included in Note 1(B)(v) to the consolidated financial statements.

Independent Auditors
A resolution to re-appoint PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

Annual General Meeting
The Annual General Meeting (AGM) will be held on Thursday 6 February 2014 at 10.30am at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London EC2A 2EG. An explanation of the business to be transacted at the AGM has been circulated to shareholders and can be found on the website http://www.tuitravelplc.com/investors-media.

The Directors' report was approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and signed on its behalf by Joyce Walter, the Company Secretary.

By Order of the Board

Joyce Walter
Company Secretary
9 December 2013

Company Number: 6072876

Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on page 66 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors also confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' responsibilities statement was approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and signed on its behalf by William Waggott, Chief Financial Officer.

William Waggott
Chief Financial Officer

9 December 2013

- STRATEGIC REPORT
- BUSINESS AND FINANCIAL REVIEW
- DIRECTORS' REPORT
- **FINANCIAL STATEMENTS**
- SHAREHOLDER INFORMATION

Financial statements

103 GROUP FINANCIAL STATEMENTS
104 Independent Auditors' report (Group)
107 Consolidated income statement
108 Consolidated statement of comprehensive income
109 Consolidated balance sheet
110 Consolidated statement of changes in equity
111 Consolidated statement of cash flows

112 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
112 1. Accounting policies
122 2. Key accounting estimates and judgements
123 3. Segmental information
126 4. Separately disclosed items
127 5. Net financial expenses
128 6. Employees
137 7. Income, expenses and auditors' remuneration
138 8. Taxation
139 9. Dividends
140 10. Intangible assets
143 11. Property, plant and equipment
145 12. Investment in joint ventures, associates and other investments
147 13. Business combinations
149 14. Deferred tax assets and liabilities
150 15. Inventories
151 16. Trade and other receivables
152 17. Cash and cash equivalents
152 18. Other investments
152 19. Assets classified as held for sale
153 20. Interest-bearing loans and borrowings
154 21. Current trade and other payables
154 22. Provisions for liabilities
155 23. Non-current trade and other payables
155 24. Called up share capital
156 25. Capital and reserves
158 26. Financial instruments
167 27. Movements in cash and net debt and cash conversion
168 28. Operating lease commitments
168 29. Capital commitments
168 30. Contingent liabilities
169 31. Related party transactions
171 32. Principal operating subsidiaries
173 33. Earnings per share
174 34. Capital management
174 35. Post balance sheet events
174 36. Ultimate parent company

175 INDEPENDENT AUDITORS' REPORT (PARENT COMPANY)
176 Company balance sheet
177 Notes to the Company's financial statements

Independent Auditors' report to the members of TUI Travel PLC

Report on the Group financial statements

Our opinion

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2013 and of its profit and cash flows for the year then ended.
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

This opinion must be read in the context of what we say below.

What we have audited

The Group financial statements, which are prepared by TUI Travel PLC, comprise:

- The consolidated income statement for the year ended 30 September 2013.
- The consolidated statement of comprehensive income for the year ended 30 September 2013.
- The consolidated balance sheet as at 30 September 2013.
- The consolidated statements of changes in equity and cash flows for the year ended 30 September 2013.
- Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRS as adopted by the European Union.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report & Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report & Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we set materiality for the Group financial statements as a whole at £27.5 million. In arriving at this judgement we have had regard to the Group's underlying operating profit as defined in Note 1(B)(ii) on page 112. We used the Group's underlying operating profit in order to exclude the volatility from one off items, acquisition related expenses, impairment of goodwill, taxation and interest as in our view this is the most relevant measure for the members of the Company in assessing financial performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.4m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is structured along three business lines being Mainstream, Accommodation & Destinations and Specialist & Activity. The Group's financial statements are a consolidation of its world-wide reporting units, comprising its operating businesses and centralised functions.

In establishing the overall Group audit strategy and plan, we determined the type of work that needed to be performed at the reporting units by the group engagement team and by component auditors from other PwC network firms and from one other firm working under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

For each reporting unit we determined whether we required an audit of their complete financial information or whether higher level procedures would be sufficient. Those where a complete audit was required included the two largest reporting units (Mainstream UK & Ireland and Mainstream Germany), because they each make up more than 15% of the Group's revenue or underlying profits. We included a further 17 reporting units due to the risk characteristics of those units, and another 18 reporting units so that the major mainstream source markets were covered. The total of these units gave us coverage of 85% of the Group's revenue. As a consequence of the maturing control environment and in consultation with the Audit Committee, we added a further 14 smaller units, principally made up of Accommodation & Destinations and Specialist & Activity reporting units.

In addition, we performed higher level procedures with respect to the remaining reporting units, including specific audit procedures on certain account balances and transactions. We also performed work on the consolidation of the reporting units. This gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own independent judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the Group financial statements is set out on pages 73 to 74.

Area of focus	How the scope of our audit addressed the risk
Goodwill and intangible impairment assessment The Directors have booked an impairment charge of £188m, leaving a balance of £3.7bn of goodwill and £0.7bn of intangibles on the balance sheet. We focused on this area because the determination of whether or not an impairment charge for goodwill was necessary involved significant judgements about the future results of many parts of the business, as set out in note 10 to the financial statements.	We evaluated and challenged the Directors' future cash flow forecasts, and the process by which they were drawn up, including comparing them to the latest Board approved three year plans, and testing the underlying value in use calculations. We challenged • the Directors' key assumptions for long term growth rates in the forecasts by comparing them to economic and industry forecasts; and • the discount rate by assessing the cost of capital for the company and comparable organisations. We also performed sensitivity analysis around those cash generating units where the impairment review showed they were closest to impairment, including challenging the speed of recovery in the poorer performing businesses. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the goodwill and intangibles to be impaired, we considered the likelihood of such a movement in those key assumptions arising and the adequacy of the disclosures made in note 10 to the financial statements.
Entry into service of new aircraft and related accounting Significant costs have been incurred and credits received with respect to the introduction of the Boeing 787 aircraft to the fleet. We focused on this area because there is judgement involved in the accounting treatment of these costs and credits both in terms of timing of recognition and their classification in the income statement.	We read and understood the clauses in, and subsequent amendments to, the original contracts relating to the acquisition of these new aircraft. We evaluated the amounts and nature of the sums to be received by the Group and the costs incurred, or to be incurred, related to the introduction of a new aircraft type and tested a sample of these items. We evaluated the appropriateness of how the Directors have accounted for and presented such items in the financial statements.
Provision for taxes We focused on this area because the actual or potential challenges by the tax authorities, particularly in Spain and Germany, involve a level of inherent uncertainty as to the amount of provision. There is also judgement required with respect to the adequacy of the disclosures made in the financial statements.	We obtained the latest correspondence between the Group and the relevant tax authorities, understood the judgements made by the Directors, held meetings with senior management and we consulted the Group's external advisers and considered their views on these matters. We challenged the judgements made by the Directors and evaluated the appropriateness of the provisions and disclosures made.
Maturity of control environment The financial controls, processes and procedures across the Group are at varying stages of maturity and there are a large number of different financial systems in operation. We focused on this area because financial information at locations where the control environment is less mature is inherently more at risk of misstatement. These locations tend to be the smaller businesses operated by the Group.	We evaluated the progress of the Group's project that is designed to formalise certain controls, policies and processes to improve the robustness of the control environment throughout the businesses operated by the Group. Given the on-going nature of this project our audit approach incorporated • a greater focus on those reporting units with weaker control environments; and • a greater emphasis on substantive testing of transactions/balances and key reconciliations. After discussion with the Audit Committee we included a greater number of smaller businesses in scope for an audit of their complete financial information.
Risk of fraud in revenue recognition Most businesses face a risk of fraud in revenue recognition. We focused on the timing of recognition of revenue because there is a difference between the timing of receipt of cash from customers and the subsequent recognition of revenue on the holiday departure date and because the reservation systems and interfaces with the accounting records are complex.	We assessed and tested the design and operation of the controls over revenue systems and also tested key reservation system reconciliations at 30 September 2013. We checked that revenue had been recognised at the correct time including testing deferred revenue balances with reference to departure dates. Our work included testing a sample of manual journals and assessing the consistency of the application of the revenue recognition policy.
Risk of management override of internal controls Management in all businesses are in a position of authority that means they can override internal controls established to prevent fraud or error.	We assessed the overall control environment of the Group and interviewed senior management and the Group's legal, compliance and internal audit functions. We understood the key trigger points for incentive payments to senior management and examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors. We also tested significant one-off transactions, performed some unpredictable procedures, and tested manual journal entries and key reconciliations.

Independent Auditors' report to the members of TUI Travel PLC
continued

Going Concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 101, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement the Directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. The going concern basis assumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit, we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Opinion on matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Other matters on which we are required to report by exception

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 102 of the Annual Report, as required by the UK Corporate Governance Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On pages 73 to 74, as required by C3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Group financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors
As explained more fully in the Directors' responsibilities statement set out on page 102, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other matter

We have reported separately on the Parent Company financial statements of TUI Travel PLC for the year ended 30 September 2013 and on the information in the Directors' Remuneration Report described as having been audited.

Roger de Peyrecave (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

9 December 2013

Consolidated income statement
for the year ended 30 September 2013

	Note	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m
Revenue	3	**15,051**	14,460
Cost of sales		**(13,395)**	(12,965)
Gross profit		**1,656**	1,495
Administrative expenses		**(1,376)**	(1,199)
Share of profits of joint ventures and associates	12	**17**	5
Operating profit		**297**	301
Analysed as:			
Underlying operating profit	3	**589**	490
Separately disclosed items	4	**(24)**	(92)
Acquisition related expenses	13(A)	**(65)**	(62)
Impairment of goodwill	10	**(188)**	(20)
Impairment of available for sale financial asset		**–**	(10)
Taxation on profits and interest of joint ventures and associates	12	**(15)**	(5)
		297	301
Financial income	5	**86**	96
Financial expenses	5	**(202)**	(196)
Net financial expenses		**(116)**	(100)
Profit before tax		**181**	201
Taxation charge	8	**(118)**	(64)
Profit for the year		**63**	137
Attributable to:			
Equity holders of the parent		**60**	138
Non-controlling interests		**3**	(1)
Profit for the year		**63**	137

	Note	**Year ended 30 September 2013 Pence**	Year ended 30 September 2012 Pence
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year			
Basic earnings per share	33	**5.4**	12.5
Diluted earnings per share	33	**5.4**	12.3

Consolidated statement of comprehensive income

for the year ended 30 September 2013

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Profit for the year		**63**	137
Other comprehensive (loss)/income			
Items that will not be reclassified to profit and loss:			
Actuarial losses arising in respect of defined benefit pension schemes	6(C)	**(23)**	(172)
Tax on actuarial losses	8(iii)	**(11)**	32
Items that will not be reclassified to profit and loss		**(34)**	(140)
Items that may be subsequently reclassified to profit and loss:			
Foreign exchange translation		**44**	(160)
Foreign exchange gains recycled through the consolidated income statement		**(1)**	–
Cash flow hedges:			
– movement in fair value	26(J)	**(76)**	(42)
– amounts recycled to the consolidated income statement	26(J)	**(5)**	(30)
Tax on cash flow hedges	8(iii)	**22**	15
Available for sale financial assets:			
– movement in fair value	12	**1**	(4)
– amounts recycled to the consolidated income statement		**–**	10
Items that may be subsequently reclassified to profit and loss		**(15)**	(211)
Other comprehensive loss for the year net of tax		**(49)**	(351)
Total comprehensive income/(loss) for the year		**14**	(214)
Total comprehensive income/(loss) for the year			
Attributable to:			
Equity holders of the parent		**15**	(211)
Non-controlling interests		**(1)**	(3)
Total		**14**	(214)

Consolidated balance sheet

for the year ended 30 September 2013

	Note	30 September 2013 £m	30 September 2012 £m
Non-current assets			
Intangible assets	10	**4,384**	4,482
Property, plant and equipment	11	**1,238**	1,096
Investments in joint ventures and associates	12	**243**	258
Other investments	12	**36**	66
Trade and other receivables	16	**205**	225
Derivative financial instruments	26(I)	**3**	21
Deferred tax assets	14	**168**	125
		6,277	6,273
Current assets			
Inventories	15	**57**	61
Other investments	18	**36**	19
Trade and other receivables	16	**1,331**	1,312
Income tax recoverable		**24**	15
Derivative financial instruments	26(I)	**41**	98
Cash and cash equivalents	17	**1,753**	830
Assets classified as held for sale	19	**10**	13
		3,252	2,348
Total assets		**9,529**	8,621
Current liabilities			
Interest-bearing loans and borrowings	20	**(594)**	(70)
Retirement benefits	6(C)	**(3)**	(2)
Derivative financial instruments	26(I)	**(147)**	(125)
Trade and other payables	21	**(4,773)**	(4,549)
Provisions for liabilities	22	**(277)**	(300)
Income tax payable		**(76)**	(39)
		(5,870)	(5,085)
Non-current liabilities			
Interest-bearing loans and borrowings	20	**(1,012)**	(868)
Retirement benefits	6(C)	**(658)**	(646)
Derivative financial instruments	26(I)	**(26)**	(20)
Trade and other payables	23	**(79)**	(48)
Provisions for liabilities	22	**(362)**	(316)
Deferred tax liabilities	14	**(31)**	(29)
		(2,168)	(1,927)
Total liabilities		**(8,038)**	(7,012)
Net assets		**1,491**	1,609
Equity			
Called up share capital	24	**112**	112
Convertible bond reserve	25	**91**	88
Other reserves	25	**2,625**	2,627
Accumulated losses	25	**(1,378)**	(1,262)
Total equity attributable to equity holders of the parent	25	**1,450**	1,565
Non-controlling interests	25	**41**	44
Total equity	25	**1,491**	1,609

The financial statements on pages 107 to 174 were approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and signed on its behalf by:

Peter J Long
Chief Executive

William H Waggott
Chief Financial Officer

Company number: 6072876

FINANCIAL STATEMENTS

Consolidated statement of changes in equity

for the year ended 30 September 2013

	Called up share capital £m	Convertible bond reserve £m	Other reserves: Merger reserve £m	Other reserves: Translation reserve £m	Other reserves: Hedging reserve £m	Accumulated losses £m	**Equity holders of parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 October 2011	112	85	2,523	286	37	(1,155)	**1,888**	50	**1,938**
Profit for the year	–	–	–	–	–	138	**138**	(1)	**137**
Other comprehensive loss for the year	–	–	–	(157)	(62)	(130)	**(349)**	(2)	**(351)**
Total comprehensive (loss)/income for the year	–	–	–	(157)	(62)	8	**(211)**	(3)	**(214)**
Transactions with owners									
Share-based payment – charge for the year	–	–	–	–	–	16	**16**	–	**16**
Share-based payment – disposal on award of shares	–	–	–	–	–	(5)	**(5)**	–	**(5)**
Dividends	–	–	–	–	–	(125)	**(125)**	(3)	**(128)**
Acquisition of non-controlling interests	–	–	–	–	–	(1)	**(1)**	–	**(1)**
Change in deferred tax rate on equity portion of convertible bond	–	3	–	–	–	–	**3**	–	**3**
At 30 September 2012	**112**	**88**	**2,523**	**129**	**(25)**	**(1,262)**	**1,565**	**44**	**1,609**

	Called up share capital £m	Convertible bond reserve £m	Other reserves: Merger reserve £m	Other reserves: Translation reserve £m	Other reserves: Hedging reserve £m	Accumulated losses £m	**Equity holders of parent £m**	Non-controlling interests £m	**Total equity £m**
At 1 October 2012	112	88	2,523	129	(25)	(1,262)	**1,565**	44	**1,609**
Profit for the year	–	–	–	–	–	60	**60**	3	**63**
Other comprehensive income/(loss) for the year	–	–	–	56	(58)	(43)	**(45)**	(4)	**(49)**
Total comprehensive income/(loss) for the year	–	–	–	56	(58)	17	**15**	(1)	**14**
Transactions with owners									
Share-based payment – charge for the year	–	–	–	–	–	15	**15**	–	**15**
Share-based payment – disposal on award of shares	–	–	–	–	–	(16)	**(16)**	–	**(16)**
Dividends	–	–	–	–	–	(130)	**(130)**	(2)	**(132)**
Acquisition of non-controlling interests	–	–	–	–	–	(2)	**(2)**	–	**(2)**
Change in deferred tax rate on equity portion of convertible bond	–	3	–	–	–	–	**3**	–	**3**
At 30 September 2013	**112**	**91**	**2,523**	**185**	**(83)**	**(1,378)**	**1,450**	**41**	**1,491**

Details of reserve movements are set out in Note 25 to the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 30 September 2013

	Note	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m
Profit for the year		**63**	137
Adjustment for:			
Depreciation and amortisation	10,11	**248**	219
Impairment of intangible assets and property, plant and equipment	10,11	**14**	22
Impairment of goodwill	10	**188**	20
Equity-settled share-based payment expenses	6(D)	**15**	16
Profit on sale of property, plant and equipment	7	**(10)**	(9)
Share of profit of joint ventures and associates	12	**(17)**	(5)
(Profit)/loss on foreign exchange	7	**(19)**	14
Impairment of available for sale financial asset		**–**	10
Change in value of assets held at fair value through profit and loss	12	**(5)**	–
Dividends received from joint ventures and associates	12	**43**	4
Pension curtailment and settlement gain recognised in consolidated income statement	6(C)	**(25)**	(1)
Financial income	5	**(86)**	(96)
Financial expenses	5	**202**	196
Taxation	8	**118**	64
Operating cash flow before changes in working capital and provisions		**729**	591
Decrease in inventories		**3**	17
Decrease/(increase) in trade and other receivables		**63**	(55)
Increase in trade and other payables		**59**	126
Belgian VAT receipt	17	**98**	–
Increase/(decrease) in provisions and retirement benefits		**11**	(35)
Cash flows generated from operations		**963**	644
Interest paid		**(90)**	(75)
Interest received		**19**	15
Income taxes paid		**(110)**	(82)
Cash flows generated from operating activities		**782**	502
Investing activities			
Proceeds from sale of property, plant and equipment		**192**	116
Acquisition of subsidiaries net of cash acquired	13(B)	**(10)**	(23)
Proceeds from other investments		**–**	1
Investment in joint ventures, associates and other investments		**(41)**	(25)
Acquisition of property, plant and equipment		**(311)**	(287)
Acquisition of intangible assets	10	**(102)**	(91)
Cash flows used in investing activities		**(272)**	(309)
Financing activities			
Proceeds from new loans and deposits taken		**82**	14
Repayment of borrowings		**(44)**	(43)
Repayment of finance lease liabilities		**(26)**	(19)
Dividends paid to ordinary and non-controlling interests	25	**(132)**	(128)
Cash flows used in financing activities		**(120)**	(176)
Net increase in cash and cash equivalents		**390**	17
Cash and cash equivalents at start of the year	17	**830**	902
Non-cash movement in bank overdrafts	17,20	**491**	–
Effect of foreign exchange on cash held		**42**	(89)
Cash and cash equivalents at end of the year	17	**1,753**	830

Movements in cash and net debt are presented in Note 27(A).

Cash flows generated from operating activities are analysed as:

		Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Cash flows generated from underlying operating activities		**684**	502
Belgian VAT receipt	17	**98**	–
Total cash flows generated from operating activities		**782**	502

Notes to the consolidated financial statements

1. Accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 30 September 2012, except for the adoption of the amendment to IAS 1 'Presentation of financial statements on OCI' that is applicable for the year ended 30 September 2013. This amended standard has no significant impact on the consolidated results or financial position.

The consolidated financial statements are presented in the Group's presentational currency of Sterling, rounded to the nearest million.

(A) Statement of compliance

The consolidated financial statements for the year ended 30 September 2013 have been prepared and approved by the Directors in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union (Adopted IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements were approved on 9 December 2013.

(B) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis other than derivative financial instruments, financial instruments held for trading and financial instruments classified as available for sale, which are stated at their fair value. Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

(i) Parent Company

TUI Travel PLC (the Company) is a company incorporated and domiciled in England and Wales and listed on the London Stock Exchange. The Registered Office of the Company is TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex, RH10 9QL.

The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP.

(ii) Underlying measures of profits and losses

The Group believes that underlying operating profit, underlying profit before tax and underlying earnings per share provide additional guidance to statutory measures to help understand the underlying performance of the business during the financial year. The term underlying is not defined under IFRS. 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 adopted IFRS GAAP measures. The Group defines these underlying measures as follows:

Underlying operating profit is operating profit from continuing operations stated before separately disclosed items, acquisition related expenses, impairment of goodwill and available for sale financial assets and interest and taxation on the Group's share of the results of joint ventures and associates.

Underlying profit before tax is profit from continuing operations before taxation, acquisition related expenses, impairment of goodwill and available for sale financial assets, interest and taxation of joint ventures and associates and separately disclosed items included within the operating result.

Underlying earnings used in the calculation of underlying earnings per share is profit after tax from continuing operations excluding acquisition related expenses, impairment of goodwill and available for sale financial assets and separately disclosed items included within the operating result. For the purpose of this calculation, an underlying tax charge is used which excludes the tax effects of separately disclosed items, acquisition related expenses, goodwill and available for sale financial asset impairment charges and separately disclosed tax items.

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

Reconciliation of underlying operating profit to underlying profit before tax

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Underlying operating profit	3	**589**	490
Net underlying financial expenses	5	**(116)**	(100)
Underlying profit before tax		**473**	390

(iii) 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 (Note 4).

(iv) Business and financial review

The Group's business activities, together with factors likely to affect its future development, performance and position, are set out in the Business and financial review section. In addition, Note 26 sets out the Group's objectives, policies and processes for managing its capital, financial risks, financial instruments and hedging activities as well as its exposures to credit and liquidity risk.

(v) Funding and liquidity

The Board remains satisfied with the Group's funding and liquidity position. At 30 September 2013, the main sources of debt funding included:

- a total of £1,120m bank revolving credit facilities which mature in June 2015;
- £185m of bonding and letter of credit facilities which mature 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
- £275m of drawn finance lease obligations with repayments up to March 2023.

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 in Note 1(B)(ii).

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.

(C) Basis of consolidation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group) and equity accounts for the Group's interest in joint ventures and associates. The Parent Company financial statements present information about the Company as a separate entity and not about the Group. Accounting policies of subsidiaries, joint ventures and associates are amended where necessary to be consistent with those adopted by the Group. Where audited financial statements are not coterminous with those of the Group, the financial information is derived from the last audited accounts available and unaudited management accounts for the period up to the Group's balance sheet date.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases.

(ii) Joint ventures and associates

Joint ventures are jointly controlled entities whose activities the Group has the power to control jointly, established by contractual agreement. Associates are those entities in which the Group has the ability to exercise significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense and changes in equity of joint ventures and associates on an equity accounted basis, from the date that joint control or significant influence respectively commences until the date that it ceases. Associates and joint ventures are recorded at cost as adjusted for post-acquisition changes in the Group's share of net assets of the entity including goodwill net of accumulated impairment loss. When the Group's share of losses exceeds the carrying amount of the joint venture or associate, the carrying amount is reduced to £nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

(iii) Non-controlling interests

In the consolidated balance sheet, the share of net assets attributable to non-controlling interests is disclosed as a separate component of equity after share capital and reserves. The consolidated income statement discloses the amount of the result for the year attributable to non-controlling interests.

Where the Group has a written put option in respect of a non-controlling interest and has an unavoidable obligation to purchase the shareholding, the obligation is recorded as a financial liability at fair value, rather than being reported as a separate component of equity. Changes to the fair value of the financial liability are recorded at each period end in the income statement within financial income or financial expenses.

On purchase or sale of a non-controlling interest held in a Group subsidiary, the Group recognises increases or decreases in the value of its interest directly in equity providing there is no overall change in control. As such, these transactions do not result in goodwill or gains and losses being recognised in the consolidated income statement. When control is lost, any remaining interest in equity is remeasured to fair value and a gain or loss is recognised in the consolidated income statement.

(iv) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(v) Acquisition in stages

Where the Group gains control of a subsidiary undertaking through a step acquisition, the existing interest owned is remeasured at fair value with the difference between fair value and book value being recognised in the income statement. The accounting impact of changes in share ownership which do not affect control is accounted for through reserves.

(vi) Acquisition related expenses

Acquisition related expenses comprise amortisation of business combination intangibles, other acquisition related expenses and remuneration for post-combination services. Directly attributable acquisition costs are expensed in the consolidated income statement as incurred.

(vii) Contingent consideration

Contingent consideration is accounted for at fair value at the acquisition date with subsequent changes in the fair value being recognised in the income statement. Contingent consideration dependent upon continuing service of an employee is charged to the income statement over the related service period within acquisition related expenses (Note 13) and is included within operating profit. Contingent consideration is discounted to present value where the time value of money is material.

(viii) Non-current assets held for sale

The Group classifies non-current assets or disposal groups containing a non-current asset as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, the assets must be available for immediate sale in their present condition, subject only to terms that are usual and customary for the sale of such assets, and their sale must be highly probable. Sale is considered to be highly probable when management are committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan has been initiated, at a price that is reasonable in relation to their current fair value, and there is an expectation that the sale will be completed within one year from the date of classification.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement.

Any impairment loss on a disposal group is allocated first to goodwill and then to remaining applicable assets on a pro rata basis (except no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies).

Notes to the consolidated financial statements
continued

1. Accounting policies continued

Certain assets and liabilities are excluded from the measurement basis of IFRS 5 including deferred tax assets (IAS 12 'Income Taxes'), assets arising from employee benefits (IAS 19 'Employee Benefits') and financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement'.

(ix) Business combinations between entities under common control
The results of business combinations between entities under common control are incorporated as if the acquired entity had always been combined. This is also known as 'predecessor accounting'. Where this applies, all necessary comparatives for the prior year financial statements are restated to reflect the inclusion of results from the commencement of the earliest comparative period, in accordance with IAS 8.

(D) Foreign currency
(i) Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement (except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined.

(ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling at the foreign exchange rates ruling at the balance sheet date.

The revenues and expenses of overseas operations are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation have been recognised directly in equity in the translation reserve, a designated foreign exchange reserve, since 1 January 2007.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve.

(iii) Net investment in foreign operations
Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in the consolidated statement of comprehensive income to the extent that the hedge is effective and are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(E) Financial instruments
(i) Financial assets
Financial assets are either classified as loans and receivables, available for sale financial assets, or financial assets at fair value through profit or loss. Financial assets include cash and cash equivalents, trade receivables, loans, trade and other investments (including financial deposits within the Group's control), derivative financial instruments and other receivables, but exclude financial deposits outside the Group's control, prepayments and taxes. The Group determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Available for sale financial assets
Available for sale financial assets are those non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses recognised within other comprehensive income until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated income statement. Note 1(W)(iii) describes the basis on which fair value is determined.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are measured at fair value after initial recognition. The gain or loss is included in the consolidated income statement. Note 1(W)(iii) describes the basis on which fair value is determined.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. Where the Group operates centrally pooled accounts and has the intention and ability to pool account balances, the net cash or overdraft position is disclosed. Where the intention or ability to pool balances together is absent, the cash and overdraft are disclosed on a gross basis in the consolidated balance sheet and the overdraft is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Where cash and cash equivalent balances are not available for use by the Group, for example to meet regulatory requirements, this fact is disclosed and the balances are excluded from available net debt.

Derecognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

(ii) Financial liabilities
Financial liabilities are either classified as financial liabilities measured at amortised cost, or financial liabilities at fair value through profit or loss. Financial liabilities include trade and other payables (excluding tax and social security and deferred income), accruals, finance debt and derivative financial instruments. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, normally being the transaction price plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at amortised cost
All financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, financial liabilities other than those at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest, other revenues and finance costs. This category of financial liabilities includes trade and other payables.

Convertible bonds
Convertible bonds are separated into three components: liability, issuer call option and equity at inception. Each component is recognised separately.

The initial fair value of the liability component of the convertible bond is determined using the market interest rate for an equivalent non-convertible bond and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds. The issuer call option is fair valued using a valuation model and is measured at each balance sheet date with changes in fair value recognised in the income statement. The remainder of the proceeds are recognised in shareholders' equity in a separate convertible bond reserve.

Issue costs are apportioned between the liability and equity components of a convertible bond based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derivatives
Derivatives are accounted for in accordance with the policy in Note 1(E)(iii).

Derecognition
The Group derecognises a financial liability when the contractual obligations to pay the contractual cash flows on the financial liability are discharged, cancelled or expire.

(iii) Derivative financial instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and fuel price risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so the nature of the item being hedged. The gain or loss on remeasurement to fair value on derivatives not designated as a hedging instrument is recognised immediately in the income statement against the opposite line of income or expense. The accounting policy for derivatives that qualify for hedge accounting is included in Note 1(F).

(iv) Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share awards are recognised as a deduction from equity, net of any tax effects.

(F) Hedge accounting
The Group designates certain derivatives as cash flow hedges of highly probable forecast transactions.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be 'highly effective' in hedging cash flows during the period for which the hedge is designated and whether the actual results of each hedge are within a range of 80-125%. The transaction being hedged should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows arising from a recognised asset or liability, or a highly probable forecast transaction, the effective part of any fair value gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately within the consolidated income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two paragraphs, the associated cumulative gain or loss is removed from equity and recognised in the consolidated income statement in the same period or periods during which the hedged forecast transaction affects the consolidated income statement.

Prospective hedge testing is performed at the inception of the hedge relationship and subsequently at each balance sheet date, through comparison of the critical terms of the hedged forecast transaction and the hedging instrument using regression analysis. Retrospective hedge testing is performed at each reporting date principally using a dollar offset analysis, comparing the cumulative changes in the fair values of the forecast hedged transaction and the hedging instrument.

When a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, hedge accounting is discontinued prospectively. If the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the consolidated income statement immediately.

Notes to the consolidated financial statements
continued

1. Accounting policies continued

(G) Revenue
Revenue represents the aggregate amount earned from inclusive tours, scheduled and charter flying, provision of incoming agency destination services, travel agency and intermediary commission received and other services supplied to customers in the ordinary course of business. Revenue excludes intra-group transactions and is stated after the deduction of trade discounts and sales taxes. Revenue is reported gross of fixed charges which are a liability of the tour operator or airline. These include Air Passenger Duty and other per passenger charges and levies, including the ATOL Protection Contribution in the UK.

(i) Revenue recognition
Revenue is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. Travel agency and intermediary commissions and other revenues received from the sale of third party product are recognised when they are earned, typically on receipt of final payment. Revenue in respect of in-house product is recognised on the date of departure. Revenue from individual travel modules directly booked by the customer with airlines, hotels and incoming agencies is recognised when the customer departs or uses the respective service. Revenue from the sale of travel insurance is recognised at the point of sale.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs.

(ii) Client monies received in advance (deferred income)
Client monies received at the balance sheet date relating to holidays commencing and flights departing after the year end are deferred and included within trade and other payables.

(iii) Measurement of revenue
Where the Group acts as principal, revenue is stated at the contractual value of goods and services provided.

Where the Group acts as an agent between the service provider and the end customer, revenue is presented on a net basis as the difference between the sales price to the customer and the cost of the services purchased and not the total transaction sales value. Businesses are identified as intermediaries dependent on a number of criteria, principally including the control exercised over the provision of service, inventory risk and customer credit risk.

(iv) Aircraft lease income
Operating lease rental income is recognised in operating income as earned, on a straight line basis over the lease term.

(H) Expenses
(i) Operating lease payments
Payments made under operating leases are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the consolidated income statement as an integral part of the total lease expense over the term of the lease.

(ii) Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Marketing and other direct sales costs
Marketing, advertising and other promotional costs, including those related to the production of brochures, are expensed when the benefit of the goods or services is made available to the Group. In particular, brochure and advertising costs are expensed to the consolidated income statement when the Group's suppliers have delivered the relevant material.

(I) Employee benefits
(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

(ii) Defined benefit plans
The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. That benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets is deducted in calculating the overall liability. The liability discount rate is the yield at the balance sheet date on AA credit-rated bonds denominated in the currency of, and having the same maturity dates approximating to, the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan which are under the control of the Group.

When the benefits of a plan are amended, the portion of the increase/decrease in benefit relating to past services by employees is recognised as an expense/income in the consolidated income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense/income is recognised immediately in the consolidated income statement.

All actuarial gains and losses are recognised in the period they occur through the consolidated statement of comprehensive income. Either monthly or annual contributions are made to funded schemes. The current service cost is included in the consolidated income statement as a personnel expense. Any change in the present value of pension scheme liabilities relating to employee service in prior periods but arising in the current period as a result of benefit amendments is charged/credited to operating expenses over the period during which such amendments vest.

The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in financial income and financial expenses, respectively.

(iii) Share-based payment transactions
The Group's share award programmes allow certain Group employees to acquire shares of the Company. These shares are awarded by the Company. For equity-settled transactions, the fair value of services is measured by the fair value of the shares at the time awarded and is recognised as an employee expense with a corresponding increase in equity. The fair value is spread over the period during which the employee becomes entitled to the awards.

For cash-settled transactions, the resulting liability for the Group is charged to expenses at its fair value as at the date of the performance of the service by the beneficiary. Until payment of this liability, the fair value of the liability is remeasured at every reporting date and all changes are included in the consolidated income statement.

For both types of share-based payment transactions, the fair value of the awards is measured using option valuation models, taking into account the terms and conditions upon which the awards were made, including market performance conditions and the impact of non-vesting conditions. The amount recognised as an expense is adjusted to reflect the actual number of share awards that vest except where forfeiture is due only to market based performance conditions not meeting the threshold for vesting.

(iv) Own shares held by the Employee Benefit Trust
Transactions of the Group-sponsored Employee Benefit Trust (the Trust) are included in the Group's consolidated financial statements. In particular, the Trust's purchase of shares in the Company is debited directly in equity to retained earnings/accumulated losses.

(v) Short term benefits
Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

(J) Financial income and expenses
Financial income comprises interest income on funds invested (including available for sale financial assets), dividend income, gains on the disposal of available for sale financial assets and changes in the fair value of financial assets or liabilities at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date the Group's right to receive payment is established which, in the case of quoted securities, is the ex-dividend date. Foreign currency gains and losses are reported on a net basis.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions and changes in the fair value of financial assets or liabilities at fair value through profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

(K) Taxation
Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income, or directly in equity, as appropriate.

(i) Current tax
Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(ii) Deferred tax
Deferred tax is provided or recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill not deductible for tax purposes, the initial recognition of assets or liabilities in a transaction that is not a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax asset recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the tax rate at which the asset or liability is expected to reverse in future periods, based on tax laws enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(L) Dividends
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are appropriately authorised and approved for payment and are no longer at the discretion of the Company. Interim dividends are recognised when paid. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(M) Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. EPS measures for continuing operations have been presented in accordance with IAS 33. The Group also presents a basic and diluted underlying EPS measure based on underlying earnings as defined in Note 1(B)(ii) above. Further details of the EPS calculation are presented in Note 33.

(N) Investments
Unless designated at fair value through profit and loss, trade investments are classified as available for sale assets and are included under non-current assets. They are recorded at fair value with movements in value taken to other comprehensive income. Any impairment to value is recorded in the income statement.

Short term investments in debt and equity securities which are held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

(O) Intangible assets
(i) Goodwill
All business combinations are accounted for by applying the purchase method.

Goodwill represents amounts arising on acquisition of subsidiaries, joint ventures and associates. Goodwill represents the difference between the fair value of consideration paid or payable and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles, such as brands and customer relationships, are those which can be sold separately or which arise from contractual or legal rights regardless of whether those rights are separable, and the fair value can be reliably measured. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is allocated to those cash generating units (CGUs) expected to benefit from the business combination and is not amortised but tested annually for impairment. Impairment testing is based on assets grouped at the lowest level at which goodwill is monitored for internal management purposes. In respect of joint ventures and associates, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture or associate.

Notes to the consolidated financial statements
continued

1. Accounting policies continued

Fair value adjustments are made in respect of acquisitions. If, at the balance sheet date, the amounts of fair values of the acquiree's identifiable assets and liabilities can only be established provisionally, then these values are used. Any adjustments to these values are taken as adjustments to goodwill and must be recorded within 12 months of the acquisition. Negative goodwill arising on an acquisition is recognised in the income statement upon acquisition.

(ii) Computer software, software in development and other intangible assets
Computer software consists of all software that is not an integral part of the related computer hardware and is stated at cost less accumulated amortisation and impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Separately acquired trademarks and licences are shown at historical cost. Licences and order books assets acquired in a business combination are recognised at fair value at the acquisition date, as detailed in Note 1 W(ii). Licences have a finite useful life and are carried at cost less accumulated amortisation.

(iii) Brands and customer relationships
Brands and contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Both intangibles have a finite useful life and are carried at cost less accumulated amortisation.

(iv) Amortisation
Amortisation is charged to the consolidated income statement on a straight line basis over the estimated useful economic life of each type of intangible asset as follows:

Computer software	3-10 years
Brands	15-20 years
Order book at date of acquisition	Over the period until travel occurs
Customer relationships	Over the period during which value will be obtained by the Group (up to 15 years)
Licences	Over the term of licence

Software in development is not amortised. Upon completion of development and bringing the software into use, the costs are re-categorised into computer software and amortisation commences.

(P) Property, plant and equipment
(i) Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets acquired by way of a finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as set out in Note 1(H)(ii) above.

(iii) Depreciation
Depreciation is charged to the consolidated income statement on a straight line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. The useful economic lives are as follows:

Freehold properties	Up to 50 years
Short leasehold improvements	Lease period or useful economic life if shorter
Owned aircraft	Up to 18 years
Finance leased aircraft and equipment	Lease period or useful economic life if shorter
Aircraft spares	12 years
Cruise ships	40 years
Yachts	5-15 years
Motor boats	15-24 years
Computer equipment including retail computer equipment	3-5 years
Retail fixtures and fittings	Up to 10 years
Other assets	Up to 7 years

The cost of major overhauls of owned airframes and engines is capitalised and depreciated over the period until the next scheduled major overhaul.

The depreciation methods, useful economic lives and residual values are reassessed annually. Revisions to useful economic lives and residual values are accounted for prospectively from the date of change.

Freehold land, assets under construction and advance payments (including capitalised borrowing costs for future aircraft) are not depreciated. Upon delivery of the aircraft, advance payments for aircraft that are subsequently owned are re-categorised to aircraft assets and depreciation is commenced. Advance payments for aircraft that are sold and leased back on delivery under an operating lease are accounted for as a disposal. Where the aircraft is leased back on a finance lease, as well as the disposal of the advance payment, an addition to aircraft is recorded at an amount equal to the lower of fair value of the aircraft and the present value of the minimum lease payments at the inception of the lease.

(iv) Borrowing costs
In respect of borrowing costs relating to qualifying assets, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

The Group has capitalised borrowing costs with respect to pre-delivery payments relating to aircraft.

(v) Sale and leaseback transactions
When a sale and leaseback results in a finance leaseback, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised in the profit and loss account if there is evidence that the asset's carrying value exceeds the fair value.

If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback is accounted for as follows:

- If the sale price is below fair value, then the gain or loss is recognised immediately, other than to the extent that a loss is compensated for by future rentals at a below-market price, then the loss is deferred and amortised over the period that the asset is expected to be used.
- If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

(Q) Impairments
(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and its recoverable amount. An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value. The recoverable amount of the Group's receivables which are carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available for sale financial asset previously recognised in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

(ii) Non-financial assets
The carrying amount of the Group's non-financial assets, other than inventory and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment.

If such an indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The largest unit to which goodwill is allocated is an operating segment level as defined in IFRS 8 before applying aggregation criteria.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(R) Inventories
Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price less the estimated costs incurred until the sale and the estimated variable costs required to sell. All inventories are written down individually where the net realisable value of inventories is lower than their carrying amounts. The measurement method applied to similar inventory items is the weighted average cost formula.

(S) Provisions
A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the outflow of economic benefits can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Maintenance provision for leased aircraft
To reflect the legal obligations placed upon the Group under the terms of certain operating leases, provision is made for the maintenance, overhaul and repair costs of operating leased airframes, engines and certain other components. The provision is based on the present value of the anticipated external costs of the next maintenance event calculated by reference to costs experienced and published manufacturers' data. The charge to the consolidated income statement is calculated by reference to the number of hours and cycles flown and by reference to the length of the full overhaul cycle. Costs incurred are charged against the provision. Neither the timing nor the value of the expenditure can be precisely determined but they can be averaged over time and over a fleet. The unwinding of discounted values is charged to the consolidated income statement as a financial expense.

Notes to the consolidated financial statements
continued

1. Accounting policies continued

(ii) Restructuring provision
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(iii) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(T) Related parties
For the purpose of these consolidated financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or significant influence. Related parties may be individuals or entities.

(U) Segment reporting
An operating segment is a component of an entity that:

- engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results and financial position are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

As described in Note 3, all underlying operating items are allocated to the segment's underlying profit except central costs and net financial expenses.

(V) Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Details of critical judgements, significant estimates and assumptions are disclosed in the relevant notes to the consolidated financial statements. The key accounting estimates and judgements are described in Note 2.

(W) Determination of fair values
A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

(i) Property, plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets
The fair value of intangible assets recognised as a result of a business combination, including brands, customer relationships and the customer order book at the date of acquisition, is valued by reference to external market values or income-based methods. Income-based methods estimate the future economic benefits to be derived from ownership of the asset by identifying, quantifying and separating cash flows attributable to the asset and capitalising their present value.

(iii) Investments in equity and debt securities
The fair value of financial assets at fair value through profit or loss and available for sale financial assets is determined by reference to their quoted closing bid price at the reporting date, where available. If there is no market price available the fair value is calculated based on other valuation techniques, including assessments of future cash flows, estimated selling price and other available information. The fair value of held to maturity investments is determined on initial recognition and thereafter for disclosure purposes only.

(iv) Trade and other receivables
Trade receivables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method as reduced by allowances for estimated irrecoverable amounts. An allowance for irrecoverable amounts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows.

(v) Trade payables
Trade payables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method.

(vi) Derivatives
The fair value of foreign currency contracts, fuel forward contracts and option contracts is their forward market price at the balance sheet date, based on external valuations or internal valuations using market data.

(vii) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease agreements.

(viii) Share-based payments
The fair value of the shares awarded is measured using option valuation models, taking into account the terms and conditions upon which the awards were made. The valuation basis is identical whether the awards will be settled in cash or shares.

(X) New Standards and interpretations not yet adopted
The following standards are applicable to the Group and will be applied to the accounting period beginning on 1 October 2013:

- IAS 19 (revised 2011) 'Employee benefits'. The amendment 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 will be 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 and will increase the Group's employee benefit expense. Had the standard been applied in the current financial year, the Group's profit before tax would have been £12m lower, equating to a decrease in the statutory and underlying earnings per share of 1.1p.
- IFRS 13 'Fair value measurement'. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The impact on the Group is expected to be mainly in relation to the fair values of assets and liabilities on acquisition of businesses and in fair valuing derivative financial instruments, although these are not expected to materially alter the Group's results and balances.
- The IASB's Annual improvements project (2011) contains seven amendments affecting five standards, which are all effective from 1 January 2013. Only the amendment to IAS 16 'Property, plant and equipment' is expected to have an impact on the Group's year end balances and disclosures, although the impact on the Group's consolidated balance sheet is not expected to be material. The previous wording of IAS 16 indicated that servicing equipment should be classified as inventory, even if it was used for more than one period. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.
- Amendments to IFRS 1 'First time adoption on government grants' and 'Exemption for severe hyperinflation and fixed dates for EU entities'. These amendments are not expected to have an impact on the Group's results or balances.
- Amendments to IFRS 7 on Financial instruments asset and liability offsetting. The amendments to IFRS 7 on offsetting financial instruments and liabilities clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendments clarify that the right of set-off must be available today and not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. This amendment is not expected to have an impact on the Group's results, balances or disclosures.

The following standards, revisions and amendments to current standards have been issued and, unless stated, are considered applicable to the Group in future years. They have not been voluntarily adopted early by the Group.

Standard	Effective date: accounting periods commencing on or after
Endorsed by the EU	
IAS 27 (revised) 'Separate financial statements'	1 January 2014
IAS 28 (revised) 'Investments in associates and joint ventures'	1 January 2014
IFRS 10 'Consolidated financial statements'	1 January 2014
IFRS 11 'Joint arrangements'	1 January 2014
IFRS 12 'Disclosure of interests in other entities'	1 January 2014
Not yet endorsed by the EU	
Amendment to IAS 36 on recoverable amount disclosures for impairment of assets	1 January 2014
Amendment to IAS 39 on novation of derivatives and continuation of hedge accounting	1 January 2014
Amendment to IFRS 10, 11 and 12 on transition guidance	1 January 2014
Amendments to IAS 32 on Financial instruments asset and liability offsetting	1 January 2014
IFRIC 21 'Levies'	1 January 2014
IFRS 9 'Financial instruments'	To be announced

IFRS 10 'Consolidated financial statements' replaces all of the guidance on control and consolidation currently within IAS 27 and SIC 12 and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. This new standard is not expected to have a material impact on the Group's results but may affect the Group's accounting treatment for its non-consolidated entities.

IFRS 11 'Joint arrangements' establishes principles for financial reporting by parties to a joint arrangement. The IFRS supersedes IAS 31 and SIC-13 and is concerned principally with both the structure of the arrangement and that an entity had a choice of accounting treatment for interests in jointly controlled entities. The adoption of this new standard is not expected to have an impact on the Group's results.

IFRS 12 'Disclosure of interests in other entities' sets out the required disclosures for entities reporting under the two new standards, IFRS 10 'Consolidated financial statements', and IFRS 11 'Joint arrangements' and replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. The IFRS requires an entity to disclose information that enables users of financial statements to evaluate both the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

The amendment to IFRSs 10, 11 and 12 on transition guidance provides additional transitional relief in IFRSs 10, 11 and 12 limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendment also requires certain comparative disclosures under IFRS 12 upon transition.

IAS 27 (revised) 'Separate financial statements' includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (revised) 'Investments in associates and joint ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

Notes to the consolidated financial statements
continued

1. Accounting policies continued

The revisions to IAS 27 and IAS 28 are not expected to have a significant impact on the Group's results.

The amendment to IAS 36 in respect of recoverable amount disclosures for impairment of non financial assets is only expected to impact disclosures where a cash generating unit is assessed on the basis of fair value less costs to sell, as opposed to value in use.

IFRS 9 'Financial instruments' was reissued in 2010 and includes guidance on the classification and measurement of financial assets and financial liabilities and the de-recognition of financial instruments. The standard is being added to as the IASB endorses different phases of the project to replace IAS 39 and its effective date is yet to be announced.

The Group continues to monitor the potential impact of these and other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future accounting periods.

2. Key accounting estimates and judgements

The preparation of consolidated financial statements under adopted IFRS requires the Directors to make estimates and judgements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amount of revenue and expenses during the year. The Directors evaluate the estimates and judgements on an ongoing basis. Such estimates and judgements are based upon historical experience and other factors they believe to be reasonable under the circumstances. Actual results may differ from estimates. The Directors have discussed with the Audit Committee the selection, development and disclosure of the Group's critical accounting policies and estimates and the applications of these policies and estimates. Key estimates and judgements have been made in respect of the following areas:

(A) Estimates

Intangible assets – Goodwill carrying value

A full impairment review has been performed of all goodwill, together with intangible and tangible balances held across the Group on a CGU basis. In the current year, the impairment review has been performed on a 'value in use' basis for all CGUs, which requires estimation of future net operating cash flows, the time period over which they will occur and appropriate discount and growth rates.

Significant estimates for revenues and costs are required in building financial budgets extending over a five year period, which are based upon internal and macroeconomic factors such as the Group's strategy for each CGU, the brand strength within that CGU, consumer demand, supplier cost increases, oil prices and the penetration of differentiated holidays. All inputs into the Group's long term plans are challenged and considered by the Group Management Board until achievable and realistic budgets are approved. For example, in the Specialist & Activity Sector, following the removal of the sector management team at the start of the financial year, the outcome of the assessment of those businesses' future profitability was considered to be less than that used in last year's impairment review, thereby causing impairments within that Sector to total £109m. In the French tour operating business, there is significant and inherent uncertainty over the speed of recovery (and therefore the timing of return to profitability) due to the ongoing political unrest and violence in the North African destinations. Delaying the return to profitability and reducing the absolute levels of profits within a five year timescale relative to last year has led to a £59m impairment charge in the year.

For the purpose of the Group's impairment testing, we have then considered the key inputs that can impact discounted cash flows the most, these being in relation to the discount rate and earnings growth (both within the long term plans and thereafter). Further details, including sensitivity analysis, are given in Note 10 and the accounting policy is set out in Note 1(Q)(ii).

Defined benefit pension plans

A qualified independent actuary undertakes the estimation of the present value of the Group's obligations under defined benefit pension schemes using assumptions taken from a range of possible actuarial assumptions. These assumptions may not be borne out in practice, especially due to the long timescales involved. In particular, the valuation of scheme assets is based on the fair value at the balance sheet date. As these assets are not intended to be sold in the short term, their value may change significantly prior to realisation. In reviewing the work of the qualified independent actuary, management was required to exercise judgement to satisfy itself that appropriate weight had been afforded to macroeconomic factors. Details of the actual assumptions used, including sensitivity analysis, are set out in Note 6(C).

Derivative financial instruments

Judgement is required in the assessment of prospective effectiveness and specifically in the assessment of the probability of forecast transactions, both at hedge inception and during the period over which hedge accounting is adopted. The fair value of derivative financial instruments can also involve judgement. Where appropriate, external valuations from financial institutions are undertaken to support the carrying value of such items. Details of sensitivity analysis are set out in Note 26(K).

(B) Judgements

Entry into service of new aircraft and related accounting

This financial year saw the Group incur costs to enable a new type of aircraft, the Boeing 787 Dreamliner, to be brought into service. As part of the funding of these costs, the Group is entitled to certain credits from Boeing which in some cases are taken directly to the income statement and in others are used to offset against the cost of each aircraft. These are therefore reported as sale and leaseback profits in the income statement when the aircraft is delivered and the sale and leaseback transaction is executed. Significant judgement is involved in the accounting treatment of these credits both in terms of recognition and classification in the income statement, since entry into service costs will continue to be incurred in the next financial year as further Boeing 787 deliveries occur and more aircraft are brought into service.

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 (Note 4).

Revenue recognition

In recognising revenue, judgement is required in the consideration of whether each individual business acts as a principal or agent and whether revenues should be recognised on a gross or net basis, in accordance with IAS 18. Judgement is required when considering the balance of risk and rewards of the sale, including delivery and non-performance risk, credit risk, inventory risk and the ability to establish prices.

Business combinations

In the case of business combinations, judgement and estimation is required in the identification and valuation of separable assets and liabilities on acquisitions. In particular, judgement and estimation is required in the identification and valuation of separable intangible assets (including brands and customer databases) and determining appropriate useful economic lives for these assets. Judgement and estimation is also required in determining the fair value of deferred tax assets and retirement benefits acquired, as well as the contingent consideration payable in respect of each acquisition. Details of acquisitions are set out in Note 13.

Liabilities

In accounting for provisions, judgement is required in determining occurrence probability, maturity and level of risk. Judgement and estimation is required in determining aircraft maintenance, restructuring, legal (including denied boarding compensation) and onerous lease provisions. It is also required to determine the provision methodology and for certain provisions, considering external information on which to base the amount of provision. Due to the volume of transactions and the materiality of period end accruals, judgement is also required in respect of the recognition and derecognition of airline and accommodation operating accruals. Details of provisions made and the basis on which the provisions have been calculated are disclosed in Note 22 and the accounting policy is set out in Note 1(S).

Taxation

The Group has, from time to time, contingent tax liabilities arising from trading and corporate transactions in the UK and overseas jurisdictions. After taking appropriate external advice, the Group makes provision for these liabilities based on the probable level of economic loss that may be incurred and which is reliably measurable. Items relating to open areas often require significant judgement, including the probability, timing and size of any amounts that may become payable. Judgements in respect of significant tax liabilities are given in Note 8. Judgement is also required in the assessment of the future recoverability of tax losses and recognition of deferred tax assets. Details of unrecognised tax losses are given in Note 14.

Recoverable amounts of deposits and prepayments

Judgements have been made in respect of the volumes of future trading with hoteliers and the credit-worthiness of those hoteliers in order to assess the recoverable amounts of deposits and prepayments made to those hoteliers. Judgement can often be based upon an understanding of the financial strength of those hoteliers and the quality of, and demand for, each hotel over the coming seasons.

Fair value measurements

Management has to make judgements regarding the valuation of some financial instruments that use inputs that are not observable in active markets. These are disclosed in Note 26(H).

3. Segmental information

IFRS 8 requires segmental information to be presented on the same basis as that used for internal management reporting. Segmental information is reported by the Group's business sectors to the Group Management Board (GMB). The GMB consists of tour operating and functional experts drawn from across the Group who execute TUI Travel's day-to-day operations, allocate resources to and assess the performance of the operating segments. Consequently, the GMB is considered to be the chief operating decision maker for the purposes of IFRS 8.

Group structure

The Group presents segmental information in respect of its Sectors. As disclosed in the Group's 2012 Annual Report & Accounts, with effect from 1 October 2012, the businesses within our Mainstream Sector are reported via each key source market instead of regionally. Emerging Markets remains outside of the Mainstream Sector for internal 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. Aggregation criteria is then used to combine certain of these operating segments into reported segments.

The Specialist & Activity Sector operates under six divisions: Adventure, Education, Marine, North American Specialist, Sport and Specialist Holidays Group. The Sector has over 100 international specialist and activity brands delivering a range of unique customer experiences. The Specialist & Activity Sector is considered to be one operating segment, in line with internal management reporting.

The Accommodation & Destinations (A&D) Sector 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. The A&D Sector in total is considered as one operating segment, in line with internal management reporting.

The Emerging Markets Sector is a growing portfolio of travel businesses in the source markets of Russia, the Ukraine, India and China and is considered to be one operating segment.

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 which 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 reports.

All reportable segments derive their revenues from the sale of leisure travel and ancillary services. Segmental information for both the current and prior year has been presented using this structure, with the prior year's information being restated. Corporate costs are in respect of central costs including finance, human resources, legal, facility costs and some information technology costs that do not relate to each business segment and hence are not allocated.

Information regarding the results of each reportable segment is provided below. Segmental performance is evaluated based on underlying operating profit and is measured consistently with underlying operating profit or loss in the consolidated financial statements and as defined in Note 1(B)(ii). Intersegmental sales and transfers reflect arm's length prices as if sold or transferred to third parties. Financial income and expenses are not allocated to the reportable segments as this activity is managed by the Group's treasury function which manages the overall net cash/debt position of the Group. No one customer exceeds 10% of entity revenues in any segment. Goodwill impairment losses arising are detailed in Note 10 and are recognised in the consolidated income statement.

Segment assets comprise capital expenditure (as this is the only measure of assets reported monthly to the GMB) and represent the amounts purchased in the year.

Notes to the consolidated financial statements
continued

3. Segmental information continued

Segmental analysis
Year ended 30 September 2013

Sector	Total revenue £m	Intersegmental 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
Accommodation & Destinations	960	(210)	750	78
Emerging Markets	–	–	–	(12)
All other segments and unallocated items	–	–	–	(32)
Total Group	15,706	(655)	15,051	589

Year ended 30 September 2012

Sector	Total revenue (restated) £m	Intersegmental revenue (restated) £m	Total external revenue (restated) £m	Underlying operating profit/(loss) (restated) £m
UK & Ireland	3,756	(122)	3,634	197
Germany	3,932	(15)	3,917	87
Nordics	1,085	(1)	1,084	71
French tour operator	903	–	903	(32)
French airline	403	(43)	360	(15)
Hotels	191	(166)	25	6
Rest of Mainstream	2,469	(74)	2,395	106
Total Mainstream	12,739	(421)	12,318	420
Specialist & Activity	1,479	(1)	1,478	48
Accommodation & Destinations	859	(195)	664	66
Emerging Markets	–	–	–	(15)
All other segments and unallocated items	–	–	–	(29)
Total Group	15,077	(617)	14,460	490

Reconciliation of Group underlying operating profit to profit before tax

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Group underlying operating profit		589	490
Separately disclosed items	4	(24)	(92)
Acquisition related expenses	13(A)	(65)	(62)
Impairment of goodwill	10	(188)	(20)
Impairment of available for sale financial asset		–	(10)
Taxation on profits and interest of joint ventures and associates	12	(15)	(5)
Operating profit		297	301
Net financial expenses	5	(116)	(100)
Profit before tax		181	201

Other segmental information

Sector	Capital expenditure 2013 £m	Capital expenditure 2012 (restated) £m	Total depreciation of property, plant and equipment and amortisation of intangible assets 2013 £m	Total depreciation of property, plant and equipment and amortisation of intangible assets 2012 (restated) £m
UK & Ireland	244	231	83	79
Germany	50	32	18	13
Nordics	17	5	5	3
French tour operator	6	6	10	11
French airline	74	70	24	15
Hotels	9	9	15	14
Rest of Mainstream	80	14	22	15
Total Mainstream	480	367	177	150
Specialist & Activity	34	43	35	39
Accommodation & Destinations	40	30	33	29
All other segments and unallocated items	8	19	3	1
Total Group	562	459	248	219

Total depreciation of property, plant and equipment and amortisation of intangible assets of £248m (2012: £219m) comprises £91m (2012: £92m) of amortisation of intangible assets as shown in Note 10 and £157m (2012: £127m) of depreciation of property, plant and equipment as shown in Note 11.

Reconciliation of capital expenditure to amounts included in the financial statements

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Total Group capital expenditure as shown above		562	459
Analysed as:			
Additions to intangible assets		102	88
Additions to property, plant and equipment		460	371
		562	459
Reconciliation to the notes to the financial statements			
Additions to intangible assets in segmental analysis		102	88
Additions to goodwill		–	3
Intangible assets: total additions	10	102	91
Additions to property, plant and equipment in segmental analysis		460	371
Property, plant and equipment: total additions	11	460	371

Included within the £460m (2012: £371m) total additions to property, plant and equipment are £187m (2012: 109m) of additions to aircraft and equipment, as disclosed in Note 11.

Entity wide disclosures
The UK is the Group's country of domicile. Revenues from external customers and non-current assets are split geographically as follows:

	UK 2013 £m	UK 2012 £m	Germany 2013 £m	Germany 2012 £m	France 2013 £m	France 2012 £m	Other Europe 2013 £m	Other Europe 2012 £m	Rest of the World 2013 £m	Rest of the World 2012 £m	Total 2013 £m	Total 2012 £m
Revenue from external customers	4,700	4,497	4,161	3,919	1,101	1,288	4,253	3,970	836	786	15,051	14,460
Non-current assets	2,833	2,767	608	546	312	374	1,138	1,088	731	803	5,622	5,578

Revenue is classified based on the source of the supply. In addition to the United Kingdom, revenue relating to an individual country is separately disclosed when it represents broadly 10% or more of total revenue. Other Europe is defined as Continental Europe and Eire excluding UK, Germany and France. Non-current assets for the table above excludes all non-current financial assets and instruments, investments in joint ventures and associates, deferred tax assets and post-employment benefit assets in accordance with IFRS 8.

Notes to the consolidated financial statements
continued

4. Separately disclosed items

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Restructuring and other separately disclosed items	59	102
Aircraft and other assets	(23)	–
Pension related credit	(25)	–
Litigation provisions	13	17
Change in accounting estimates	–	(27)
Total	24	92

Separately disclosed items within operating profit are included within the consolidated income statement as follows:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Revenue	1	–
Cost of sales	4	–
Administrative expenses	19	92
Total	24	92

Restructuring and other separately disclosed items

The overall charge of £59m includes £54m of restructuring costs. £29m of the restructuring costs arise in the Mainstream business, with £25m occurring in France from the ongoing restructure of the tour operator and the airline. In particular, a £19m charge has been taken in the final quarter of the year as a result of a voluntary redundancy programme being announced in the French tour operator, to reduce overhead costs further given the difficult trading environment it is experiencing at present.

There has been a total of £18m of restructuring costs incurred in the Specialist & Activity Sector in the current financial year due to the removal of the Sector management team, the closure of a business in the Education division, further restructuring of the PEAK adventure business based in Melbourne, Australia and rationalisation of overseas bases in the Marine division. Within the Accommodation & Destinations Sector, £7m of restructuring costs have arisen due to several programmes aimed at rationalising the business structure and moving to a number of regional shared service centres in Europe, Asia and the Americas.

In addition to these restructuring costs, the most significant other item is a £4m charge due to the change in value of unhedged foreign currency derivative instruments relating to future seasons.

Included in the year ended 30 September 2012 were Mainstream restructuring costs of £66m which principally related to: the restructuring programmes in the French tour operator and airline, being £66m in total; the £5m restructure of the Moroccan airline, Jet4You; and offset by a £7m release of unused provision in the German tour operator. In addition, a total of £24m restructuring costs were incurred across the Specialist & Activity and Accommodation & Destinations Sectors. £8m of this total arose from restructuring actions taken in the Adventure division; £6m arose from the write-down of specific ski chalet assets; £4m arose from actions taken in the Marine division; and £3m from the finalisation of restructuring programmes in Greece, Morocco and Tunisia. A total of £12m of costs were incurred in Group head office companies, being primarily to support the various restructuring programmes around the Group.

Aircraft and other assets

During the year ended 30 September 2013, a total credit of £18m has been recognised which arises from various aircraft transactions. Significantly, this is the first year in which the Group has incurred costs to enable a new type of aircraft, the Boeing 787 Dreamliner, to be brought into service. As part of the funding of these costs, the Group is entitled to certain credits which in some cases are taken directly to the income statement and in others are used to offset against the cost of each aircraft. These are therefore reported as sale and leaseback profits in the income statement when the aircraft is delivered and the sale and leaseback transaction is executed. The entry into service costs, the associated credits and sale and leaseback profits have all been included in separately disclosed items due to the size and nature of the items and the imperfect matching between costs being incurred and credits being recognised in the income statement. Entry into service costs will continue to be incurred in the next financial year as further Boeing 787 deliveries occur and more aircraft are brought into service.

In addition to the aircraft items, a credit of £5m has been recognised from uplifting the value of the Group's total investment in The Airline Group Limited to reflect the fair value agreed under the terms of the disposal agreement announced on 19 November 2013.

Pension related credit

In the Netherlands, the management and Works Council of TUI Nederland NV agreed to close the existing defined benefit pension scheme and replace it with a defined contribution scheme. This change is classified as a curtailment under IAS 19 and the resultant reduction in accrued pension liabilities of £14m has been recognised in the income statement in the period in which it occurred.

The management of TUI Nederland NV and the pension scheme trustees also agreed to transfer the existing pension fund assets and liabilities to AEGON, a multinational life insurance, pensions and asset management company headquartered in the Netherlands. This transfer of the pension assets and liabilities has been approved by the Dutch pension regulator and has now been accounted for, generating a further credit in the income statement of £11m. Further details of these transactions are disclosed in Note 6(C).

Litigation provisions

At the year end the Group has continued to assess the likely outcome of the legal actions in which it is involved and, in accordance with IAS 37, has recognised provisions where it is more likely than not that an outflow of resources will be required to settle the obligation. This year the process has resulted in a charge to the income statement of £13m (€15m) in respect of the penalties agreed with the Spanish tax authorities on 11 October 2013 under the terms of the settlement reached (Note 8).

In the year ended 30 September 2012, the Group's assessment of the likely outcome of the legal actions in which it was then involved resulted in a charge to the income statement of £17m.

Change in accounting estimates

During the year ended 30 September 2012, the Group reviewed the estimates used in calculating aircraft maintenance provisions and empty leg provisions to ensure consistency of application of the latest estimates across the Group. This process resulted in a credit to the income statement of £27m, which due to its size was included as a separately disclosed item.

5. Net financial expenses

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Financial income		
Bank interest receivable	19	15
Interest on pension scheme assets (Note 6(C))	67	72
Other financial income	–	9
Total	86	96
Financial expenses		
Bank interest payable on loans and overdrafts	(23)	(19)
Finance charges on convertible bond	(63)	(62)
Interest on pension scheme liabilities (Note 6(C))	(81)	(86)
Interest payable on shareholder loans	–	(2)
Finance lease charges and interest on debt financed aircraft	(12)	(7)
Unwinding of discount on provisions (Note 22)	(5)	(8)
Facility fees	(13)	(12)
Other financial expenses	(5)	–
Total	(202)	(196)
Net financial expenses	(116)	(100)

Notes to the consolidated financial statements
continued

6. Employees

(A) Average number of employees
The average monthly number of employees in the year in the Group by Sector, including Directors on service contracts and key management, was as follows:

	Year ended 30 September 2013 Number	Year ended 30 September 2012 Number
By Sector		
Mainstream	**38,381**	38,235
Specialist & Activity	**6,560**	6,773
Accommodation & Destinations	**10,029**	8,732
Emerging Markets	**8**	–
Corporate	**428**	350
Total	**55,406**	54,090

(B) Employee costs

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Wages and salaries	**1,489**	1,412
Social security costs	**252**	252
Pension costs: Defined benefit pension scheme – curtailment and settlement disclosed in separately disclosed items	**(25)**	–
Pension costs: Defined benefit pension scheme cost	**40**	26
Pension costs: Defined contribution pension scheme cost	**29**	27
Share-based payments (Note 6(D))	**17**	17
Total	**1,802**	1,734

Included within wages and salaries are £40m (2012: £35m) of wages and salaries and £4m (2012: £16m) of social security costs in relation to redundancy costs that are included within separately disclosed items in Note 4.

(C) Pension costs
The Group operates pension schemes for employees eligible and wishing to participate in the schemes. These comprise both defined contribution and defined benefit schemes. Pension obligations vary reflecting the different legal and market conditions in each country of operation. Defined contribution schemes are funded by the payment of contributions to private and state-run organisations, whilst defined benefit schemes comprise both funded and unfunded schemes. The assets of all the funded defined benefit schemes are held separately from the assets of the Group.

Defined contribution schemes for employees and Directors
Current contributions are recognised as an expense in the year and once paid the Group has no further liability. Pension costs of £29m (2012: £27m) relating to defined contribution schemes were charged to the income statement.

Defined benefit pension schemes
The movement of defined benefit pension obligations and assets is detailed below, summarised as UK, Germany and Other. Other includes funded schemes in Ireland, the Netherlands (up until the date of closure of this scheme), Switzerland and Norway, whilst the main unfunded arrangements are in Austria and France. Almost all UK schemes are funded whilst German schemes are unfunded.

The funded schemes in the UK are closed to new members.

The Group has established a Pension Funding Partnership arrangement (PFP) including TUI Travel Amber Scot LP (SLP) and TUI Travel Amber E&W LLP (LLP), together the Partnerships (the Partnerships). The main operating brands of the UK business, namely Thomson and First Choice, were transferred to the LLP and three pension schemes subscribed for interests in the LLP via the SLP. TUI UK Limited pays a royalty to the LLP for the use of the brands. The Britannia Airways Limited Superannuation and Life Assurance Scheme, the TUI Pension Scheme (UK) and the Thomson Airways Pension Scheme in aggregate are entitled to an annual income distribution of approximately £17m. The PFP has a life of 15 years from inception, after which the schemes will receive a payment equal to their outstanding funding deficit, up to a maximum of £275m in aggregate, in return for their interest in the PFP.

The Partnerships are controlled by the Group and their results are consolidated by the Group. There is no net impact on the Group balance sheet, the IAS 19 deficit or income statement. The investment held by the pension schemes does not meet the definition of a scheme asset under IAS 19, and is therefore not included within the fair value of scheme assets disclosed in the Group financial statements. The recognition of the brand assets in the Group financial statements remains unaffected by the establishment of the PFP, although the Thomson and First Choice brands, the latter of which is recognised on the Group balance sheet, are now being held as security for the PFP. See Note 10 for more information.

In September 2013, the Company and the Trustees of the Britannia Airways Limited Superannuation and Life Assurance Scheme, the TUI Pension Scheme (UK) and the Thomson Airways Pension Scheme reached agreement on the 2012 scheme valuations and associated funding contributions. As part of this settlement, £30m was paid into an escrow account on behalf of the schemes, ahead of year end. This was a performance related payment in respect of the current year. The level of payments in subsequent years is dependent on the rate of growth in underlying earnings. Following the completion of formal legal documentation, the £30m was released from the escrow account to the schemes in October 2013. This amount is reported within prepayments at year end, since it met neither the definition of scheme assets within IAS 19 nor cash. Details of the current funding commitments of these three UK schemes are shown below, excluding the performance related element which is not quantifiable in advance.

Scheme name	Date of last full actuarial valuation	Average Group contribution rate	Average employee contribution rate
Britannia Airways Limited Superannuation and Life Assurance Scheme	31 March 2012	14.0% plus £33.5m per annum deficit contribution and £12.2m PFP income	10.0%
TUI Pension Scheme (UK)	31 March 2012	11.5% plus £13.7m per annum deficit contribution and £4.2m PFP income	7.2%
Thomson Airways Pension Scheme	31 March 2012	19.8% plus £3.0m per annum deficit contribution plus £0.5m PFP income	14.6%

Where there is more than a single class of membership, contribution rates reflect weighted average values within the scheme. Contribution rates are stated before adjustment for salary sacrifice arrangements where applicable.

The principal unfunded schemes in Germany are shown below. These were all subject to a full actuarial valuation within three months preceding the balance sheet date:

Scheme name	Status
Versorgungsordnung' Hapag-Lloyd Fluggesellschaft GmbH	Open to new members
Versorgungsordnung' TUI Deutschland GmbH	Closed to new members
Versorgungsordnung' TUI Leisure Travel GmbH	Closed to new members

Within Other territories, TUI Nederland NV and the Works Council agreed to close the existing defined benefit pension scheme and replace it with a defined contribution scheme. This change is classified as a curtailment under IAS 19 and the resultant reduction in accrued pension liabilities of £14m has been recognised in the consolidated income statement in the year.

The management of TUI Nederland NV and the pension scheme trustees have also agreed to transfer the existing pension fund assets and liabilities to AEGON, a multinational life insurance, pensions and asset management company headquartered in the Netherlands. The agreement was contingent on approval by the Dutch pension regulator, which was received in April 2013. This transfer of the pension assets and liabilities generated a further credit in the income statement of £11m which is accounted for as a settlement gain under IAS 19. The gains on curtailment and settlement are recognised within administrative expenses in the consolidated income statement.

Valuations of the schemes are made by qualified actuaries using market based valuations for the assets and the projected unit method for the liabilities. The Group recognises all actuarial gains or losses in the consolidated statement of comprehensive income.

The assets of each scheme have been taken at market value and liabilities in each territory have been calculated using the following principal assumptions:

	UK[1] per annum		Germany per annum		Other[3] per annum	
	2013 %	2012 %	**2013 %**	2012 %	**2013 %**	2012 %
RPI inflation	**3.3**	2.7	**1.3**	2.6	**1.2**	2.2
Pensionable salary inflation[2]	**2.7**	2.5[2]	**2.5**	2.5	**2.4**	2.7
Discount rate	**4.4**	4.5	**3.5**	3.3	**2.7**	3.0

1 Pension increases in payment across the UK Schemes reflect either fixed increases or index linked increases, subject to minimum and maximum limits applicable to each class of benefit.

2 UK pensionable salary increase is capped at 2.5% for all employees earning over £31,519.

3 The assumptions for Other are a weighted average.

Notes to the consolidated financial statements
continued

6. Employees continued

The mortality assumptions underlying the value of the accrued liabilities for each territory are set out in the tables below. The mortality assumptions are based on relevant standard mortality tables in each territory:

UK life expectancy (weighted average)

	2013 Years	2012 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	**23.1**	22.6
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	**24.5**	23.9
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	**25.5**	24.5
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	**27.0**	26.1

Germany life expectancy

	2013 Years	2012 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	**18.8**	18.6
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	**21.4**	21.3
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	**22.8**	22.7
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	**25.4**	25.3

Other life expectancy (weighted average)

	2013 Years	2012 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	**20.7**	21.6
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	**23.0**	22.7
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	**23.2**	23.8
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	**25.6**	24.9

The fair value of assets of the schemes in each territory are set out below:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Equities	**526**	483	**–**	–	**2**	1	**528**	484
Government debt	**233**	241	**–**	–	**–**	101	**233**	342
Corporate bonds	**253**	222	**–**	–	**–**	–	**253**	222
Property	**75**	70	**–**	–	**–**	–	**75**	70
Cash and cash equivalents	**4**	6	**–**	–	**–**	9	**4**	15
Other	**181**	174	**–**	–	**48**	36	**229**	210
Total	**1,272**	1,196	**–**	–	**50**	147	**1,322**	1,343

The expected rates of return on each category of assets in each territory are as follows:

	UK		Germany		Other	
	2013 %	2012 %	**2013 %**	2012 %	**2013 %**	2012 %
Equities	**7.8**	7.1	**n/a**	n/a	**7.0**	7.0
Government debt	**3.4**	2.6	**n/a**	n/a	**n/a**	2.6
Corporate bonds	**4.4**	4.5	**n/a**	n/a	**n/a**	3.3
Property	**6.9**	6.1	**n/a**	n/a	**n/a**	5.0
Cash and cash equivalents	**0.5**	0.5	**n/a**	n/a	**n/a**	0.5
Other	**7.0**	6.2	**n/a**	n/a	**4.6**	2.0
Overall expected rate of return	**6.1**	5.5	**n/a**	n/a	**4.6**	2.4

The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the schemes' investment portfolio. The fair values of the schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised.

Changes in the fair value of scheme assets in each territory are as follows:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Balance at beginning of year	**1,196**	1,077	**–**	–	**147**	145	**1,343**	1,222
Expected return on scheme assets	**65**	67	**–**	–	**2**	5	**67**	72
Company contributions	**55**	56	**–**	–	**7**	4	**62**	60
Member contributions	**–**	–	**–**	–	**1**	2	**1**	2
Benefits paid	**(79)**	(71)	**–**	–	**(2)**	(7)	**(81)**	(78)
Assets distributed on settlement	**–**	–	**–**	–	**(107)**	–	**(107)**	–
Experience gains/(losses)	**35**	67	**–**	–	**(2)**	9	**33**	76
Foreign exchange	**–**	–	**–**	–	**4**	(11)	**4**	(11)
Balance at end of year	**1,272**	1,196	**–**	–	**50**	147	**1,322**	1,343
Actual return on scheme assets	**100**	134	**–**	–	**–**	14	**100**	148

Employer contributions in the following year are expected to be £116m in respect of the UK and £2m in respect of Other. The UK value includes £17m in respect of income distribution from the PFP and £30m paid into escrow prior to the year end and classified as a prepayment at the year end.

The composition of the fair value of scheme assets in each territory is as follows:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Schemes with surplus of assets	**2**	–	**–**	–	**11**	9	**13**	9
Schemes with deficit of assets	**1,270**	1,196	**–**	–	**39**	138	**1,309**	1,334
Total	**1,272**	1,196	**–**	–	**50**	147	**1,322**	1,343

Changes in the present value of defined benefit obligations in each territory are as follows:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Balance at beginning of year	**1,624**	1,436	**168**	129	**199**	171	**1,991**	1,736
Current service cost	**17**	14	**12**	7	**6**	6	**35**	27
Past service cost	**–**	–	**5**	–	**–**	–	**5**	–
Interest cost on obligation	**72**	74	**6**	6	**3**	6	**81**	86
Benefits paid	**(79)**	(71)	**(3)**	(2)	**(4)**	(9)	**(86)**	(82)
Member contributions	**–**	–	**–**	–	**1**	2	**1**	2
Curtailment/settlement	**–**	–	**–**	–	**(132)**	(1)	**(132)**	(1)
Actuarial losses/(gains)	**71**	171	**(13)**	41	**(2)**	36	**56**	248
Amounts arising from business combinations	**–**	–	**16**	–	**–**	–	**16**	–
Reclassification	**–**	–	**–**	–	**–**	1	**–**	1
Foreign exchange	**–**	–	**10**	(13)	**6**	(13)	**16**	(26)
Balance at end of year	**1,705**	1,624	**201**	168	**77**	199	**1,983**	1,991

The amounts recognised in the consolidated income statement for the years ended 30 September 2013 and 30 September 2012 for each territory are as follows:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Current service cost	**17**	14	**12**	7	**6**	6	**35**	27
Past service cost	**–**		**5**	–	**–**	–	**5**	–
Curtailment/settlement	**–**	–	**–**	–	**(25)**	(1)	**(25)**	(1)
Interest on defined benefit pension scheme obligation	**72**	74	**6**	6	**3**	6	**81**	86
Expected return on defined benefit pension scheme	**(65)**	(67)	**–**	–	**(2)**	(5)	**(67)**	(72)
Total	**24**	21	**23**	13	**(18)**	6	**29**	40

Notes to the consolidated financial statements
continued

6. Employees continued

These amounts are included within the following expense/(income) categories in the consolidated income statement:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Cost of sales	**7**	6	**16**	6	**4**	4	**27**	16
Administrative expenses	**10**	8	**1**	1	**(23)**	1	**(12)**	10
Financial expenses	**72**	74	**6**	6	**3**	6	**81**	86
Financial income	**(65)**	(67)	**–**	–	**(2)**	(5)	**(67)**	(72)
Total	**24**	21	**23**	13	**(18)**	6	**29**	40

The £25m gain arising on curtailment and settlement of the TUI Nederland scheme is included within the administrative expenses of Other schemes.

The amounts included within equity for the years ended 30 September 2013 and 30 September 2012 for each territory are as follows:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Cumulative losses brought forward	**656**	552	**51**	13	**55**	31	**762**	596
Losses/(gains) recognised during the year	**36**	104	**(13)**	41	**–**	27	**23**	172
Reclassification to profit and loss reserve	**–**	–	**–**	–	**(48)**	–	**(48)**	–
Amounts arising from business combinations	**–**	–	**7**	–	**–**	–	**7**	–
Foreign exchange	**–**	–	**2**	(3)	**2**	(3)	**4**	(6)
Cumulative losses carried forward	**692**	656	**47**	51	**9**	55	**748**	762

Following the closure of the TUI Nederland scheme, £48m has been transferred from the Group's IAS 19 reserve to profit and loss reserve, both of which are included within the Group's accumulated losses.

Trend analysis information in respect of the UK, Germany and Other territories is as follows:

UK

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of scheme liabilities	**(1,705)**	(1,624)	(1,436)	(1,422)	(1,327)
Fair value of scheme assets	**1,272**	1,196	1,077	1073	942
Deficit	**(433)**	(428)	(359)	(349)	(385)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience gain/(loss) on scheme liabilities	**34**	(2)	(22)	(3)	(23)
Change in actuarial assumption loss	**(105)**	(169)	(22)	(51)	(249)
Total actuarial loss on scheme liabilities	**(71)**	(171)	(44)	(54)	(272)
Experience gain/(loss) on scheme assets	**35**	67	(54)	39	37
Total actuarial loss	**(36)**	(104)	(98)	(15)	(235)

Germany

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of scheme liabilities	**(201)**	(168)	(129)	(117)	(97)
Fair value of scheme assets	**–**	–	–	–	–
Deficit	**(201)**	(168)	(129)	(117)	(97)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience gain/(loss) on scheme liabilities	**4**	(1)	–	3	3
Change in actuarial assumption gain/(loss)	**9**	(40)	6	(19)	(16)
Total actuarial gain/(loss) on scheme liabilities	**13**	(41)	6	(16)	(13)
Experience gain on scheme assets	**–**	–	–	–	–
Total actuarial gain/(loss)	**13**	(41)	6	(16)	(13)

Other

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of scheme liabilities	**(77)**	(199)	(171)	(170)	(156)
Fair value of scheme assets	**50**	147	145	142	137
Deficit	**(27)**	(52)	(26)	(28)	(19)

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience gain/(loss) on scheme liabilities	**1**	(4)	(1)	2	1
Change in actuarial assumption gain/(loss)	**1**	(32)	12	(13)	(21)
Total actuarial gain/(loss) on scheme liabilities	**2**	(36)	11	(11)	(20)
Experience (loss)/gain on scheme assets	**(2)**	9	(8)	–	(3)
Total actuarial (loss)/gain	**–**	(27)	3	(11)	(23)

Total

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of scheme liabilities	**(1,983)**	(1,991)	(1,736)	(1,709)	(1,580)
Fair value of scheme assets	**1,322**	1,343	1,222	1,215	1,079
Deficit	**(661)**	(648)	(514)	(494)	(501)

Total

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience gain/(loss) on scheme liabilities	**39**	(7)	(23)	2	(19)
Change in actuarial assumption loss	**(95)**	(241)	(4)	(83)	(286)
Total actuarial loss on scheme liabilities	**(56)**	(248)	(27)	(81)	(305)
Experience gain/(loss) on scheme assets	**33**	76	(62)	39	34
Total actuarial loss recognised in other comprehensive income	**(23)**	(172)	(89)	(42)	(271)

Notes to the consolidated financial statements
continued

6. Employees continued

Reconciliation of defined benefit obligations and scheme assets to values recognised in the balance sheet:

	UK		Germany		Other		Total	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Present value of unfunded defined benefit obligations	**1**	1	**201**	168	**18**	17	**220**	186
Present value of funded defined benefit obligations	**1,704**	1,623	**–**	–	**59**	182	**1,763**	1,805
Fair value of scheme assets	**(1,272)**	(1,196)	**–**	–	**(50)**	(147)	**(1,322)**	(1,343)
Recognised liability for defined benefit obligation	**433**	428	**201**	168	**27**	52	**661**	648
Analysed as:								
Retirement benefit current liabilities	**–**	–	**3**	2	**–**	–	**3**	2
Retirement benefit non-current liabilities	**433**	428	**198**	166	**27**	52	**658**	646
Total	**433**	428	**201**	168	**27**	52	**661**	648

The sensitivity of the fair value of the defined pension deficit to the key financial and demographic assumptions is illustrated below:

	UK 2013 £m	**Germany 2013 £m**	**Other 2013 £m**	**Total 2013 £m**
Decrease to deficit of increasing discount rate by 0.25%	**(77)**	**(9)**	**(1)**	**(87)**
Increase to deficit of reducing discount rate by 0.25%	**82**	**10**	**2**	**94**
Increase to deficit of increasing all life expectancies by 1 year	**56**	**4**	**1**	**61**

(D) Share award schemes

The Company operates three principal share award schemes which are designed to link remuneration to the future performance of the Group. The schemes are the Performance Share Plan (PSP), the Deferred Annual Bonus Scheme (DABS) and the Deferred Annual Bonus Long-Term Incentive Scheme (DABLIS). All shares under these schemes involve both service and performance conditions and are awarded at nil cost to participants.

The DABLIS scheme is described below and the other two schemes are described in the Remuneration Report along with the relevant vesting criteria.

At 30 September 2013, the shares allocated and outstanding in respect of ordinary shares, were as follows:

Share award scheme	**Number of shares 2013**	Number of shares 2012	Date due to vest/date vested
Performance Share Plan	**–**	1,864,433	4 December 2012
	–	695,082	19 March 2013
	1,851,300	1,988,854	6 December 2013
	3,042,857	3,234,113	7 December 2014
	193,242	193,242	1 June 2015
	1,851,734	–	6 December 2015
Deferred Annual Bonus Scheme	**–**	3,148,956	4 December 2012
	3,535,905	3,825,685	6 December 2013
	5,200,660	5,376,936	7 December 2014
	3,604,844	–	6 December 2015
Deferred Annual Bonus Long-Term Incentive Scheme	**–**	1,924,199	4 December 2012
	2,032,726	2,131,122	6 December 2013
	3,601,638	3,866,944	7 December 2014
	2,211,179	–	6 December 2015
Total	**27,126,085**	28,249,566	

The number of share awards at the beginning and end of the year is as follows:

	Number of awards 30 September 2013	Number of awards 30 September 2012
Outstanding at the beginning of the year – excluding deferred shares	**28,249,566**	26,346,949
Forfeited during the year	**(3,846,931)**	(4,784,495)
Reclassified as share appreciation rights	**–**	(219,552)
Exercised during the year	**(5,076,118)**	(5,882,575)
Granted during the year	**7,799,568**	12,789,239
Outstanding at the end of the year – excluding deferred shares	**27,126,085**	28,249,566

In addition to the above shares, there are 3,118,873 (2012: 2,491,300) deferred shares outstanding in relation to the Deferred Annual Bonus Scheme. These are due to vest between 6 December 2013 and 6 December 2015.

In respect of the Deferred Annual Bonus Long-Term Incentive Scheme there are an additional 4,465,568 (2012: 4,406,287) deferred shares. These are due to vest between 6 December 2013 and 6 December 2015.

No material awards have been made to date under the Group's HMRC approved Share Incentive Plan which is an all-employee share plan.

The fair value of services received in return for shares awarded during the year is measured by reference to the fair value of the shares awarded. The fair value at the date the shares were awarded has been estimated using a binomial methodology for all schemes except where there is a market-based performance condition attached to vesting, in which case a Monte Carlo simulation was used. The principal assumptions required by these methodologies were:

	2013	2012
Information relating to fair values of shares awarded		
Fair value at measurement date	**£1.45-£2.45**	£0.85-£1.46
Share price	**£2.84**	£1.66
Expected volatility	**35.5%**	36.1%
Award life	**3 years**	3 years
Expected dividends	**4.94%**	4.47%
Risk free interest rate	**0.42%**	0.54%

Participants are not entitled to dividends prior to vesting. Expected volatility is based on historic volatility adjusted for changes to future volatility indicated by publicly available information. Shares were awarded under a service condition.

Employee expenses for the year

Employee expenses for the current and prior year relating to share-based schemes are:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Equity-settled	**15**	16
Expense arising for share appreciation rights	**2**	1
Total	**17**	17

Share appreciation rights

Certain participants (other than Board Directors) are eligible to receive their awards on a cash settled basis, the calculation of which exactly replicates the formal share-based scheme.

Deferred Annual Bonus Long-Term Incentive Scheme

The Deferred Annual Bonus Long-Term Incentive Scheme (DABLIS) is for participants below the GMB level and requires a 25% deferral of any annual performance bonus award into shares. Matching shares may also be awarded up to four times the deferred amount and are subject to the achievement of stretching performance conditions over a three year period. Awards of deferred and matching shares are subject to forfeiture conditions until the release date. The earliest point at which the shares are eligible for release is at the end of three years following deferral.

For awards of matching shares made during the year, no shares will vest unless the annual average of the ratio of the Group's return on invested capital (ROIC) to the weighted average cost of capital (WACC) meets or exceeds one over the three year period. A hurdle of ROIC, being at least equal to WACC, is used to ensure that the relevant long term incentive awards pay out only when shareholder value is being created over the performance periods. If the ROIC/WACC hurdle is met, shares will only vest to the extent to which three further performance conditions are satisfied over the three year period as follows:

- Up to half of the matching shares will vest based on achievement of an aggregate EBITA profit target for the participants' Sector over the three year performance period.

Notes to the consolidated financial statements
continued

6. Employees continued

Achievement of aggregate EBITA target	Proportion of award that vests
At or below 75%	0%
Between 75% and 100%	On a straight line basis between 10% and 100%
At or above 100%	100%

- Up to one quarter of the matching shares will vest based on growth in the Group's earnings per share (EPS), in relation to the growth in the UK Retail Price Index (RPI) as shown in the table below:

Average annual EPS growth in excess of RPI growth	Proportion of award that vests
Below 4%	0%
Between 4% and 13%	On a straight line basis between 10% and 100%
13% or above	100%

- In respect of awards made prior to 30 September 2011, up to one quarter of the matching shares will vest based on the Group's ranking of total shareholder return (TSR) performance relative to companies ranked 30th to 100th by market capitalisation on the London Stock Exchange as at the date of the award as shown in the table below:

TSR Ranking	Proportion of award that vests
Below median	0%
Between median and upper quartile	On a straight line basis between 15% and 100%
At or above upper quartile	100%

In respect of awards made after 1 October 2011, up to one quarter of the matching shares will vest based on the Group's total shareholder return (TSR) performance relative to an average of the TSR performance of an index of international travel and leisure companies. Deloitte provides the Group with the TSR measurement as required. The index is considered to be the most appropriate benchmark for comparison purposes. The companies included in the index are:

1 Aer Lingus Group
2 Air Berlin
3 Air France-KLM
4 Carnival
5 Club Mediterranee
6 Deutsche Lufthansa
7 easyJet
8 Expedia
9 Finnair
10 FirstGroup
11 Flight Centre
12 Hertz Global Holdings
13 International Consolidated Airlines Group
14 Kuoni Reisen Holding
15 National Express Group
16 Norwegian Air Shuttle
17 Pierre & Vacances
18 Priceline.com
19 Royal Caribbean Cruises
20 Ryanair Holdings
21 Stagecoach Group
22 Thomas Cook Group
23 Wotif.com Holdings

TUI Travel's TSR performance	Proportion of award that vests
Below index	0%
Between index and index +8% per annum (inclusive)	On a straight line basis between 15% and 100%
Exceeding index +8% per annum	100%

Matching share awards lapse if the performance conditions are not met.

(E) Remuneration of Directors

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Emoluments	**7**	7
Pensions and other retirement benefits	**1**	1
Total	**8**	8

Further information is provided in the audited section of the Remuneration Report.

7. Income, expenses and auditors' remuneration

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Included within operating profit in the consolidated income statement for the year are the following (credits)/charges:		
Operating lease income: aircraft	**(40)**	(47)
Operating lease income: land and buildings	**(2)**	(2)
Operating lease rentals: land and buildings, aircraft and other equipment	**604**	619
Depreciation of property, plant and equipment	**157**	127
Amortisation of intangible assets: business combination intangibles	**57**	59
Amortisation of intangible assets: other intangibles	**34**	33
Charge for share-based payments	**17**	17
Profit on sale of property, plant and equipment	**(10)**	(9)
(Profit)/loss on foreign currency retranslation	**(19)**	14
Impairment of goodwill and other intangibles	**199**	30
Impairment of property, plant and equipment	**3**	12

Operating lease rental costs include £nil (2012: £10m) of costs included in separately disclosed items (Note 4) as provisions for onerous leases, primarily related to vacated properties. In addition to the operating lease rentals disclosed above, charges of £102m (2012: £186m) were incurred in respect of hotel accommodation rentals which are disclosed as operating leases under IFRIC 4: Determining whether an arrangement contains a lease.

The Group leases aircraft throughout the year, and, in certain circumstances, sub-leases a number of such aircraft when it has the capacity to do so, in order to maximise operational efficiency. Up to 15 aircraft are leased to other airline companies at fixed rates. In addition, up to 13 aircraft are leased to the Sunwing Travel Group (Sunwing), an associate of the Group. The aircraft leased to Sunwing are winter only leases and are at market rates. The expected income from future minimum lease payments under non-cancellable operating leases is as follows:

Minimum lease payments under non-cancellable operating leases expiring:	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Within one year	**32**	38
Between one and five years	**49**	64
Later than five years	**23**	30
Total	**104**	132

Services provided by the Company's auditors and its associates

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditor and its associates:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**1**	1
Fees payable to the Company's auditors and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	**5**	4
Auditors' remuneration for audit services	**6**	5
Other services provided to comply with legislation*	**1**	1
Audit and audit related services	**7**	6
All other services	**2**	2

* Relate principally to the interim review and airline regulatory returns.

Fees charged to the consolidated income statement in 2013 in respect of all other services, totalling £2m, includes £850,000 for their work on the Class 1 shareholder circular in respect of aircraft orders with Boeing, £420,000 in respect of the implementation of the COSO framework in the German businesses and £266,000 of tax advice in respect of expatriates.

Fees charged to the consolidated income statement in 2012 in respect of all other services, totalling £2m, included £573,000 in respect of IT consultancy, £287,000 in respect of the implementation of the COSO framework and £220,000 of tax advice in respect of expatriates.

Notes to the consolidated financial statements
continued

8. Taxation

The tax charge can be summarised as follows:

(i) Analysis of charge in the year

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Current tax charge			
UK corporation tax on profit for the year		**6**	–
Non-UK tax on profit/loss for the year		**92**	70
Adjustments in respect of previous years		**45**	(42)
		143	28
Deferred tax charge/(credit)			
Origination and reversal of temporary differences:			
Current year UK		**9**	21
Current year non-UK		**7**	9
Changes in tax rates		**4**	11
Adjustments in respect of previous years		**(45)**	(5)
	14	**(25)**	36
Total income tax charge in consolidated income statement		**118**	64

Following the annual review of the local tax positions in a number of the Group's major operating jurisdictions during the year, certain tax balances have been adjusted to reflect the position of the latest local statutory accounts and tax returns. These adjustments in respect of prior years have been reflected in the current year income statement tax charge.

(ii) Reconciliation of effective tax rate

The total tax charge (2012: charge) for the year is higher (2012: higher) than the standard rate of corporation tax in the UK of 23.5% (2012: 25%). The differences are explained below:

	Year ended 30 September 2013		Year ended 30 September 2012	
	£m	%	£m	%
Profit before tax reported in the consolidated income statement	**181**		201	
Less share of profit in joint ventures and associates (Note 12)	**(17)**		(5)	
	164		196	
Income tax on profit before tax excluding share of profit of joint ventures and associates at the standard rate of UK tax of 23.5% (2012: 25%)	**39**	**24**	49	25
Expenses not deductible for tax purposes	**51**	**31**	23	12
Income not taxable	**(10)**	**(6)**	(10)	(5)
Tax losses not recognised as an asset	**33**	**20**	38	19
Utilisation of tax losses not previously recognised	**(7)**	**(4)**	(4)	(2)
Higher tax rates on overseas earnings/losses	**8**	**5**	3	2
Changes in tax rates	**4**	**2**	12	6
Adjustments to taxation in respect of previous years	**–**	**–**	(47)	(24)
Total income tax charge in consolidated income statement	**118**	**72**	64	33

The underlying effective rate of taxation for the year ended 30 September 2013 is calculated based on the underlying profit before tax (excluding separately disclosed items, acquisition related expenses and impairment charges) and is calculated at 27%. The actual tax rate of 72% differs from the underlying effective tax rate primarily due to the tax effect of the non-recognition of tax losses in France and goodwill impairment charges of £188m on which no tax deduction is available.

(iii) Deferred tax recognised outside of the consolidated income statement

The following taxation (credit)/charge has been recognised outside of the consolidated income statement:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Tax relating to components of other comprehensive income		
Cash flow hedges	**(22)**	(15)
Defined benefit pension plans	**11**	(32)
Total tax credited to other comprehensive income	**(11)**	(47)
Tax credited directly to equity		
Convertible bonds	**(3)**	(3)
Total	**(14)**	(50)

(iv) Factors affecting future tax charge

A) At the balance sheet date, the Finance Act 2013 had been enacted confirming that the main UK corporation tax rate will reduce to 21% with effect from 1 April 2014 and 20% from 1 April 2015. Therefore, at 30 September 2013, deferred tax assets and liabilities have been calculated based on a rate of 20% where the temporary difference is expected to reverse after 1 April 2015. These reductions may also reduce the Company's future current tax charges accordingly.

B) During 2012, the German tax authorities issued new guidance on how certain items of expenditure should be treated for the purposes of German trade tax. In 2013 the German tax authorities provided some additional clarification and informed the Group that, in their opinion, the guidance is applicable to tour operating activities in Germany. The Group continues to disagree with this interpretation. It is possible that the issue will have to be litigated through the German tax courts and it could take a considerable amount of time to bring it to a resolution.

It is difficult to estimate accurately the potential liability should the German tax authorities challenge successfully the Group's interpretation of the guidance, due to the differing nature of the contracts which could be impacted by any such challenge. As a result there is a range of possible outcomes. If the Group is successful in its arguments there would be no exposure. However, it is possible that the liability over the previous six years (2012: five years) could be up to a total of approximately £80m (2012: £64m), although the Group believes that German trade tax law should not apply to standard tour operating contracts and that any liability would be substantially less than this.

C) Other factors which may affect the future tax charge include the mix of jurisdictions with different tax rates in which profits and losses arise, changes in tax rates and the potential future recognition of tax losses for which a deferred tax asset has not been recognised at the year end (Note 14).

(v) Spanish tax case

In the Group's financial statements for 2010, 2011 and 2012, it was disclosed that the Spanish tax authorities were contesting the Spanish corporate income tax treatment of two transactions undertaken by two of the Group's Spanish subsidiary companies during the period 2002 to 2006. Throughout the tax audit process, the Group has engaged fully and openly with the Spanish tax authorities and has supplied considerable documentary support and Spanish technical tax analysis to explain the commercial and economic rationale and Spanish corporate income tax treatment for the transactions. These transactions were implemented after the Group had taken specialist external advice.

On 11 October 2013 agreement was reached on the terms of a settlement with the Spanish tax authorities. The total of tax, interest and penalties is €50m. The disputed tax of €30m has been lodged with the authorities in earlier financial years whilst the case was progressing, meaning that the settlement involves a further payment of interest and penalties totalling €20m. The tax (€30m) and interest (€5m) amounts have been provided in previous years within tax charges and financial expenses respectively, whilst the penalties of €15m (£13m) have been accrued within administrative expenses in the year ended 30 September 2013 and included within separately disclosed items (Note 4).

9. Dividends

The following dividends which relate to the Company's ordinary shares have been deducted from equity in the year:

	Pence per share	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Dividends relating to the year ended 30 September 2011			
Interim dividend (paid October 2011)	**3.3**	**–**	36
Final dividend (paid April 2012)	**8.0**	**–**	89
	11.3	**–**	125
Dividends relating to the year ended 30 September 2012			
Interim dividend (paid October 2012)	**3.4**	**38**	–
Final dividend (paid April 2013)	**8.3**	**92**	–
	11.7	**130**	–

The interim dividend in respect of the year ended 30 September 2013 of 3.75p per share was paid on 4 October 2013 and this dividend of £42m will be recognised as a deduction from equity in the year ending 30 September 2014.

Subsequent to the balance sheet date, the Directors have proposed a final dividend of 9.75p per share (2012: final dividend of 8.3p per share) payable on 9 April 2014 to the holders of relevant shares on the register at 7 March 2014. The final proposed dividend amounts to £108m and will, after approval by shareholders, be recognised in the consolidated financial statements for the year ending 30 September 2014. The final ordinary dividend of 9.75p per share, together with the interim dividend of 3.75p per share, makes a total dividend of 13.5p per share relating to the year ended 30 September 2013.

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 2013 final dividend, may do so by contacting Equiniti directly on 0871 384 2030 or via the overseas helpline on +44 121 415 7047. The last day for election for the final proposed dividend is 19 March 2014 and any requests should be made in good time ahead of that date.

Notes to the consolidated financial statements
continued

10. Intangible assets

	Goodwill £m	Brands £m	Customer relationships £m	Computer software £m	Licences £m	Software in development £m	Other £m	Total £m
Cost								
At 1 October 2011	4,549	459	205	449	37	30	168	5,897
Additions	3	–	1	40	–	43	4	91
Acquisition through business combinations	8	7	–	1	–	–	–	16
Disposals	(1)	–	–	(29)	(1)	–	–	(31)
Reclassification to assets held for sale	–	–	–	–	(8)	–	–	(8)
Foreign exchange	(147)	(11)	(11)	(13)	(1)	(1)	(2)	(186)
Reclassification of asset class	1	–	–	11	(1)	(10)	(1)	–
At 30 September 2012	4,413	455	195	459	26	62	169	5,779
Additions	–	–	–	52	–	49	1	102
Acquisition through business combinations	24	4	3	1	–	–	–	32
Disposals	–	(1)	(2)	(185)	(1)	–	(6)	(195)
Foreign exchange	68	2	7	8	1	–	2	88
Reclassification of asset class	–	–	–	18	–	(18)	–	–
At 30 September 2013	**4,505**	**460**	**203**	**353**	**26**	**93**	**166**	**5,806**
Accumulated amortisation and impairment losses								
At 1 October 2011	(646)	(109)	(61)	(336)	(16)	(5)	(82)	(1,255)
Amortisation for the year	–	(27)	(14)	(40)	(2)	–	(9)	(92)
Impairment loss	(20)	(2)	–	–	(8)	–	–	(30)
Reclassification to assets held for sale	–	–	–	–	7	–	–	7
Disposals	–	–	–	28	–	–	–	28
Foreign exchange	29	3	3	7	1	1	1	45
At 30 September 2012	(637)	(135)	(72)	(341)	(18)	(4)	(90)	(1,297)
Amortisation for the year	–	(25)	(14)	(42)	(2)	–	(8)	(91)
Impairment loss	(188)	(2)	–	(2)	–	(7)	–	(199)
Disposals	–	1	2	181	1	–	2	187
Foreign exchange	(14)	(1)	(2)	(4)	–	–	(1)	(22)
At 30 September 2013	**(839)**	**(162)**	**(86)**	**(208)**	**(19)**	**(11)**	**(97)**	**(1,422)**
Net book value								
At 1 October 2011	3,903	350	144	113	21	25	86	4,642
At 30 September 2012	3,776	320	123	118	8	58	79	4,482
At 30 September 2013	**3,666**	**298**	**117**	**145**	**7**	**82**	**69**	**4,384**

Additions to computer software and software in development totalling £101m includes costs relating to major IT development projects across all Sectors within the Group, including the implementation of SAP across certain Mainstream Sectors and the development of digital solution platforms for our customers.

Goodwill impairment charges are discussed below. A £2m impairment charge to brands has been recognised in the year following the decision to close one small business within the UK & Ireland. A £9m impairment charge to computer software and software in development has been recognised following a decision to streamline certain IT infrastructure projects and reservation systems within the Group, in light of the Group's IT projects mentioned above. The impairment charge to computer software and software in development is included within cost of sales.

Disposals of computer software during the year with a net value of £4m follows an extensive verification exercise undertaken by the Group to write out of the books fully depreciated and unutilised software assets in preparation for the Group's major IT development projects.

Amortisation of intangible assets is recognised within cost of sales in the consolidated income statement. Amortisation of business combination and other intangibles combined with depreciation of property, plant and equipment is disclosed by segment in Note 3.

In 2011, the Group established a Pension Funding Partnership arrangement (PFP). The main operating brands of the UK business, namely Thomson and First Choice, were sold into the PFP and three UK pension schemes subscribed for interests in the PFP. The recognition of the two brand assets in the Group financial statements remains unaffected by the establishment of the PFP, although the Thomson and First Choice brands, the latter of which is recognised on the Group balance sheet at a value of £94m (2012: £101m), are now being held as security for the PFP.

Individual intangible assets other than goodwill that are considered material to the Group are as follows:

	Brands		Customer relationships		Other intangible assets	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
First Choice brand	**94**	101	**–**	–	**–**	–
Marmara brand	**27**	27	**–**	–	**–**	–
Accommodation Wholesaler customer relationships	**–**	–	**66**	70	**–**	–
Landing slots	**–**	–	**–**	–	**28**	30
	121	128	**66**	70	**28**	30

The First Choice and Marmara brands are major brands of the UK & Ireland and French businesses respectively and have a remaining amortisation period of 14 years (2012: 15 years). The customer relationships within the Accommodation & Destinations (Accommodation Wholesaler) Sector are in respect of commercial contractual relationships with travel agents and have a remaining amortisation period of 9 years (2012: 10 years). The landing slots are in respect of the UK & Ireland business for airports in the UK and have a remaining amortisation period of 14 years (2012: 15 years).

Goodwill impairment testing

IAS 36 requires that impairment tests are carried out on CGUs, following the level at which the Group's management measures returns on operations. Once every year, or more frequently if events or a change in the economic environment indicate a risk of impairment, the Group assesses the recoverable amount of goodwill allocated to its CGUs as required by IAS 36 'Impairment of assets'. The recoverable value of goodwill for all CGUs has been determined to be 'value in use'.

The calculation of recoverable value for CGUs based on value in use includes the following assumptions:

- Cash flow projections based on the Group's latest Board approved three year business plan, which management has extended by two years to create a five year plan.
- Cash flows beyond the plan period are extrapolated using a real growth rate of between 1.0% and 3.9% (2012: between 1.0% and 3.9%). The growth rate used is less than or equal to third party estimates of the medium term GDP growth rates of the key geographic markets in which the specific CGU operates at the time the projections are prepared.
- Cash flows are discounted using the Group's WACC adjusted as appropriate for business specific factors, such as geographic risk.
- Cash flows exclude planned enhancement capital expenditure, together with the associated benefit that the expenditure is expected to produce.
- Cash flows include the impact of working capital in both the asset base and the impact on cash flows over the plan period.
- Central Group overheads are borne in full by CGUs and are allocated pro rata to the CGU's underlying operating profit.

Assumptions used in the five year plan take past experience into account with CGU specific and central contingencies in the five year plan being allocated to all CGUs.

Since determination of an appropriate Group WACC is judgemental, sensitivities also address how increases in the base Group WACC might impact the results of the impairment tests. The Group's WACC is based on a capital asset pricing model calculation using a mixture of in-house data and externally available information.

An analysis of the aggregate and material carrying amounts of goodwill allocated to each principal CGU, together with the growth rates being applied to cash flows beyond the plan period and the pre-tax discount rates used for each CGU or group of similar CGUs is as follows:

		Goodwill		Growth rate applied to cash flows after five year plan		Pre-tax discount rate used	
Sector	CGU	**30 September 2013 £m**	30 September 2012 £m	**30 September 2013 %**	30 September 2012 %	**30 September 2013 %**	30 September 2012 %
Mainstream	UK & Ireland	**1,490**	1,490	**2.45**	2.3	**10**	10
Mainstream	Germany	**407**	364	**1.4**	1.5	**11**	11
Accommodation & Destinations	Accommodation Wholesaler	**385**	354	**2.0**	2.0	**11**	12
Mainstream	Nordics	**271**	268	**2.2**	2.25	**11**	11
Accommodation & Destinations	Accommodation OTA	**239**	232	**3.43**	3.15	**10**	10
Mainstream	France	**137**	180	**1.75**	1.8	**10**	11
Specialist & Activity	Adventure	**129**	131	**2.78**	3.25	**11**	11
Specialist & Activity	Marine	**73**	105	**2.1**	2.1	**10**	11
All Sectors	Multiple CGUs	**535**	652	**1.0-3.9**	1.0-3.9	**10-14**	10-14
Total goodwill		**3,666**	3,776				

The multiple CGUs not separately listed above do not individually represent more than 3% of total Group goodwill. All of the Group's goodwill has been allocated to each CGU and all CGUs have been tested for impairment.

Notes to the consolidated financial statements
continued

10. Intangible assets continued

Goodwill impairment charges

If the recoverable amount of a CGU is estimated to be less than the total of its operating non-current assets, goodwill and other intangibles, an impairment loss is recognised immediately in the income statement. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets on a pro rata basis. The total impairment loss recognised in the year of £188m is equal to the difference between the net book values and the recoverable amounts and is analysed as follows:

Sector & IFRS 8 reportable segment	CGU	Goodwill impairment charge 2013 £m	Pre-tax discount rate 2013 %	Pre-tax discount rate 2012 %	Long term growth rate 2013 %	Long term growth rate 2012 %
Mainstream – France	France	**59**	10	11	1.75	1.8
Specialist & Activity	Marine	**39**	10	11	2.1	2.13
Specialist & Activity	Sport	**26**	10	11	2.73	2.8
Specialist & Activity	Experience Education	**22**	10	11	2.2	2.2
Specialist & Activity	North American Education	**22**	11	11	2.2	2.2
Mainstream – Southern Europe	Italy	**9**	10	11	1.0	1.0
Mainstream – Southern Europe	Spain	**1**	14	13	1.8	1.9
Goodwill impairment charge arising from the annual impairment test		**178**				
Goodwill impairment charge recognised on closure of businesses		**10**				
Total goodwill impairment charges recognised in the year		**188**				

All of the impairment charges arising from the Group's annual impairment test, which total £178m, have arisen as a result of a deterioration in forecast trading results within the five year plans, relative to the prior year. The impairment test for all of these CGUs was based on the value in use calculation. The impairment charges are disclosed within administrative expenses and shown separately on the face of the consolidated income statement. The impairments arise since the cash flow model based on the current five year plan did not support the carrying amount of goodwill for these CGUs.

A further £10m goodwill impairment was recognised in the first half of the financial year in respect of two small businesses within the Specialist & Activity Sector that were identified as non-core to the Group, which are in the process of being closed, thereby providing an indication that the goodwill attached to those businesses is no longer supportable. As such, the goodwill relating to these businesses has been fully impaired.

All CGUs for which an impairment charge has been recognised are tour operating businesses. The CGUs within the Mainstream Sector represent the source geographical markets. The Sport CGU within Specialist & Activity Sector specialises in the sports tour market for spectator and corporate clients whilst the two Education CGUs offer specially designed travel packages for schools and universities, including educational tours, student ski trips, adventure holidays and language courses. In 2012, the Education division was considered to be one CGU incorporating both Experience Education and North American Education. During the current year, the UK based Experience Education businesses have been separated from the North American Education businesses following a restructure in the operational management and separation of the day-to-day running and internal reporting of these businesses as from 1 October 2012. As such these businesses are considered to be two separate CGUs and their assets have been tested on this basis.

Sensitivity analysis for goodwill

The calculation of recoverable amount is particularly sensitive to forecast future earnings, the discount rate and the long term growth rate. The Directors have considered the separate impacts of: i) increasing WACC by 0.5%; ii) a reduction in underlying earnings of 5% across all years; and iii) a reduction in the long term percentage growth rate beyond the five year plan to nil as being reasonably possible changes.

		Impairment (or further impairment) charge arising from a reasonably possible change in assumption:		
CGU	Goodwill £m	Increase in WACC of 0.5% £m	Reduction in underlying earnings of 5% £m	Reduction in the long term percentage growth rate to nil £m
France	**137**	8	16	19
Marine	**73**	17	18	45
Experience Education	**49**	6	17	16
North America Education	**37**	4	7	12
Adventure	**129**	–	–	14
Sport	**15**	2	5	8
Accommodation OTA	**239**	30	25	113
Russia	**53**	2	4	8
	732	69	92	235

In respect of Accommodation OTA, the recoverable amount equals the carrying amount and therefore any change to an assumption used in the test will cause an impairment. For the Russian CGU, the recoverable amount would equal the carrying amount if, independently, the WACC increases by 0.25%, underlying earnings fall by 1% or the long term growth rate used falls from 3.75% to 3.45%. For Adventure, a reduction in the long term growth rate from 2.78% to 1% would cause the recoverable amount to equal the carrying amount.

The values for all other CGUs in the table above represent additional impairment charges that would be incurred following a reasonably possible change in an assumption as the goodwill in these CGUs has already been impaired. As such, for these CGUs, the remaining carrying amount equals the recoverable amount.

The sensitivities disclosed immediately above do not take account of any mitigating action that management would take should earnings decrease.

No other material impairments to goodwill or assets would arise following these reasonably possible changes in these key assumptions.

Based on all of the calculations undertaken, the Directors consider that the recoverable amount of goodwill in each CGU is at least equal to its current carrying value.

11. Property, plant and equipment

	Land and buildings £m	Yachts, motor boats and cruise ships £m	Aircraft and equipment £m	Advance payment for future delivery of aircraft £m	Computer equipment £m	Other equipment £m	Total £m
Cost							
At 1 October 2011	384	419	729	170	195	484	2,381
Foreign exchange	(18)	(4)	(33)	(8)	(3)	(20)	(86)
Acquisitions through business combinations	–	–	–	–	–	3	3
Transfers from inventory	–	8	–	–	–	2	10
Additions	12	32	109	133	10	75	371
Disposals	(34)	(20)	(96)	(80)	(12)	(29)	(271)
Reclassifications	16	(1)	9	–	2	(26)	–
Transferred to assets held for sale	(2)	(1)	(31)	–	(5)	(3)	(42)
At 30 September 2012	358	433	687	215	187	486	2,366
Foreign exchange	2	–	16	2	1	6	27
Acquisitions through business combinations	1	–	–	–	3	7	11
Additions	19	28	187	140	11	75	460
Disposals	(71)	(10)	(156)	(136)	(120)	(156)	(649)
Reclassifications	3	(1)	45	(27)	2	(22)	–
Transferred (to)/from assets held for sale	(6)	(1)	31	(8)	–	(1)	15
At 30 September 2013	**306**	**449**	**810**	**186**	**84**	**395**	**2,230**
Accumulated depreciation and impairment							
At 1 October 2011	(199)	(152)	(531)	–	(168)	(330)	(1,380)
Foreign exchange	9	2	23	–	3	12	49
Provided in the year	(16)	(21)	(43)	–	(12)	(35)	(127)
Disposals	28	11	94	–	12	21	166
Impairments	(1)	–	(6)	–	–	(5)	(12)
Reclassifications	(10)	–	–	–	(1)	11	–
Transferred to assets held for sale	2	–	26	–	3	3	34
At 30 September 2012	(187)	(160)	(437)	–	(163)	(323)	(1,270)
Foreign exchange	1	2	(11)	–	1	(5)	(12)
Provided in the year	(24)	(24)	(59)	–	(15)	(35)	(157)
Disposals	70	6	138	–	119	142	475
Impairments	(1)	–	(2)	–	–	–	(3)
Reclassifications	–	1	–	–	–	(1)	–
Transferred to/(from) assets held for sale	1	1	(28)	–	–	1	(25)
At 30 September 2013	**(140)**	**(174)**	**(399)**	**–**	**(58)**	**(221)**	**(992)**
Net book value							
At 1 October 2011	185	267	198	170	27	154	1,001
At 30 September 2012	171	273	250	215	24	163	1,096
At 30 September 2013	**166**	**275**	**411**	**186**	**26**	**174**	**1,238**

Notes to the consolidated financial statements
continued

11. Property, plant and equipment continued

Impairment charges
Of the £3m impairment charge in the year ended 30 September 2013, £1m relates to the impairment of an aircraft engine owned within the Belgium operating segment, £1m relates to the impairment of an aircraft engine owned within the UK & Ireland operating segment and £1m relates to the impairment of buildings owned within the UK & Ireland operating segment. The impairment charges are included within cost of sales.

Of the £12m impairment charge in the year ended 30 September 2012, £6m related to the impairment of one aircraft owned within the UK & Ireland operating segment, £5m related to the impairment of motor vehicles within the Specialist & Activity Sector and £1m related to the impairment of office leasehold improvements within the French tour operating segment.

Additions to aircraft and equipment
Additions of £187m (2012: £109m) to aircraft and equipment relate to five aircraft (2012: three aircraft) purchased during the year including four aircraft (2012: three aircraft) purchased on finance leases as well as fleet improvements and capitalised maintenance on owned aircraft.

Advance payments for future delivery of aircraft
Additions of £140m (2012: £133m) to advance payments for future delivery of aircraft were due to payments made for the future delivery of 76 aircraft (2012: 16 aircraft) and interest of £8m (2012: £9m) that has been capitalised during the year at a rate of 5.4% (2012: 5.4%).

The disposal of £136m (2012: £80m) from advance payments for future delivery of aircraft arises from the delivery and then sale and leaseback of 13 aircraft (2012: eight aircraft).

During the year advance payments for future delivery of aircraft with a value of £8m were transferred to assets held for sale prior to their subsequent disposal.

Disposals
In addition to the disposal of £136m advance payments for future delivery of aircraft, other major disposals in the year consisted of £18m of net book value of aircraft of which the most significant element was two 747s operated by Corsair that were disposed of during the year, and £14m of disposals of other equipment of which the most significant element related to buyer furnished equipment on aircraft that were delivered and then subject to sale and operating lease back.

Significant cost and accumulated depreciation across all property, plant and equipment categories were also disposed of during the year, with little impact on net book value, due to an exercise performed by the UK & Ireland operating segment to identify and retire unutilised assets, most of which were already fully depreciated.

Other disclosures
Other equipment with a combined net book value as at 30 September 2013 of £174m (2012: £163m) includes £94m (2012: £101m) of fixtures and fittings, £55m (2012: £42m) of property, plant and equipment under construction and £23m (2012: £20m) of motor vehicles.

Land and buildings comprise freehold and long leasehold properties with net book values of £116m (2012: £120m) and short leasehold properties with a net book value of £50m (2012: £51m) respectively.

The net book value of assets held under finance leases and hire purchase contracts at 30 September 2013 was £315m (2012: £224m). This includes £89m (2012: £94m) of yachts, motor boats and cruise ships, £210m (2012: £115m) of aircraft, £6m (2012: £6m) of land and buildings and £10m (2012: £9m) of other assets, mainly vehicles.

The net book value of property, plant and equipment with restrictions on title, being pledged as security for bank loans, amounted to £161m (2012: £32m).

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

12. Investment in joint ventures, associates and other investments
The Group's equity investment in its joint ventures and associates is recorded in the consolidated financial statements as follows:

	Share of net assets of joint ventures £m	Share of net assets of associates £m	Total share of net assets £m
At 1 October 2011	100	142	242
Share of (losses)/profits before amortisation, interest and tax for the year	(6)	22	16
Share of interest and tax charge	(3)	(2)	(5)
Share of amortisation for the year	(1)	(5)	(6)
Additions	25	–	25
Dividend paid	(2)	(2)	(4)
Reclassifications and other movements	(1)	(2)	(3)
Foreign exchange	(7)	–	(7)
At 30 September 2012	105	153	258
Share of profits before amortisation, interest and tax for the year	1	35	36
Share of interest and tax charge	(8)	(7)	(15)
Share of amortisation for the year	–	(4)	(4)
Additions	5	27	32
Disposals	(5)	(9)	(14)
Dividends paid	(12)	(31)	(43)
Foreign exchange	(1)	(6)	(7)
At 30 September 2013	**85**	**158**	**243**

The Group's share of joint venture and associate profit after interest and tax was £17m (2012: £5m).

During the year, the Group received a dividend of £28m (2012: £nil) from Sunwing Travel Group Inc, a 25% associate of the Group, and invested £27m into Blue Diamond Hotels and Resorts Inc, a 49% associate of the Group. Also during the year, the Group acquired the remaining 50.1% shareholding in the former associate TUI Infotec GmbH that it did not already own. Further details of this acquisition can be found in Note 13.

The principal joint ventures and associates and the proportion of voting rights are shown below:

Name of company	Proportion of voting rights held %	Nature of business	Country of registration/incorporation
Joint ventures			
Travco Group Holding SAE	50.0	Incoming agency	Egypt
Le Passage to India Tours and Travels Private Limited	50.0	Incoming agency	India
Atlantica Hellas SA	50.0	Hotel operator	Greece
Atlantica Hotels & Resorts Limited	49.9	Hotel operator	Cyprus
Togebi Holdings Limited	49.0	Tour operator	Cyprus
Associates			
Sunwing Travel Group Inc	25.0	Tour operator	Canada
Blue Diamond Hotels and Resorts Inc	49.0	Hotel operator	Barbados

With the exception of Sunwing Travel Group Inc, the Group's interest is in the ordinary share capital of each joint venture and associate. In respect of Sunwing Travel Group Inc, the Group holds a 100% interest in its Class Q (non voting) and Class Y Non-Voting Common shares and 25% interest in its Class Z Special Voting shares.

Notes to the consolidated financial statements
continued

12. Investment in joint ventures, associates and other investments continued

A summary of the Group's share of the results of its associates and joint ventures for the year ended 30 September 2013 and share of the assets and liabilities at this date is shown below:

	Joint ventures 2013 £m	Associates 2013 £m	Total 2013 £m	Joint ventures 2012 £m	Associates 2012 £m	Total 2012 £m
Revenue	**429**	**571**	**1,000**	405	517	922
Operating costs	**(428)**	**(540)**	**(968)**	(412)	(500)	(912)
Operating profit/(loss)	**1**	**31**	**32**	(7)	17	10
Net interest (payable)/receivable	**(4)**	**1**	**(3)**	(2)	1	(1)
(Loss)/profit before taxation	**(3)**	**32**	**29**	(9)	18	9
Taxation	**(4)**	**(8)**	**(12)**	(1)	(3)	(4)
(Loss)/profit after taxation for the year	**(7)**	**24**	**17**	(10)	15	5
Non-current assets	**122**	**183**	**305**	129	134	263
Current assets	**104**	**154**	**258**	111	134	245
Total assets	**226**	**337**	**563**	240	268	508
Current liabilities	**(72)**	**(128)**	**(200)**	(88)	(105)	(193)
Non-current liabilities	**(69)**	**(51)**	**(120)**	(47)	(10)	(57)
Total liabilities	**(141)**	**(179)**	**(320)**	(135)	(115)	(250)
Net assets	**85**	**158**	**243**	105	153	258

2012 revenues and operating costs for associates have been restated on a gross basis in order to correct the comparative year's presentation of these figures.

Togebi Holdings Limited

The Group has an agreement with S-Group Capital Management Limited (SGCM), regarding Togebi Holdings Limited, a jointly-owned investment holding 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. All major decisions have to be agreed by both shareholders and under IAS 31 'Interests in joint ventures' the entity is therefore accounted for as a joint venture.

SGCM is owned by a significant shareholder of TUI AG and is therefore considered to be a related party. Togebi Holdings Limited and its subsidiary undertakings are therefore considered to be related parties by virtue of SGCM being the joint venturer to this investment.

Details of loan and other balances with Togebi Holdings Limited and its subsidiary undertakings are disclosed in Note 31.

Sunwing Travel Group Inc

The strategic venture with Sunwing Travel Group Inc is accounted for as an associate as the Group does not control or jointly control this business.

Other investments

	Trade and listed investments £m	Non-consolidated entities £m	Total £m
At 1 October 2011	51	21	72
Change in the fair value of available for sale financial assets through other comprehensive income	(4)	–	(4)
Foreign exchange	(1)	(1)	(2)
At 30 September 2012	46	20	66
Additions	1	–	1
Reclassification to current asset investments	(30)	–	(30)
Investments consolidated for the first time	–	(7)	(7)
Change in the fair value of available for sale financial assets through other comprehensive income	1	–	1
Change in the fair value of assets held at fair value through profit and loss	5	–	5
At 30 September 2013	**23**	**13**	**36**

Other investments of £36m (2012: £66m) comprise trade and listed investments and non-consolidated entities.

During the year the Group revalued its 14.3% shareholding in The Airline Group Limited (which in turn has a 42% shareholding in NATS Holdings Limited) upwards by £5m to fair value through profit and loss with the credit being included in separately disclosed items (Note 4). The basis of valuation was the offer received during the year for the majority of this investment. In view of the impending disposal of 87.4% of this investment, the element being disposed of has been reclassified as a current asset investment. Further disclosure regarding the valuation of The Airline Group Limited is provided in Note 26 (H).

The remaining trade and listed investments at 30 September 2013 represented the Group's 4.4% (2012: 4.4%) shareholding in Air Berlin PLC and a 10% (2012: 10%) holding in the Atlantica Leisure Group Limited.

The Group's investment in Air Berlin PLC is carried at fair value, determined by reference to its equity share price at the balance sheet date.

Non-consolidated entities are recorded at cost and reflect the Group's net investment held in circa 50 subsidiaries which, due to the immaterial size of their revenues, result and financial position, have not been consolidated. Balances between these entities and consolidated subsidiaries have not been eliminated.

13. Business combinations

(A) Acquisitions in the year ended 30 September 2013

Acquisitions were made in the year for a total investment value of £30m in order to expand business operations in line with the Group's growth strategy. In accordance with the provisions of IFRS 3 (revised), incidental acquisition costs of £2m have been expensed within administrative expenses (and disclosed as an acquisition related expense) in the consolidated income statement in the year. These acquisitions gave rise to provisional goodwill of £24m. The one significant business acquired in the year was the remaining 50.1% of the voting equity shares of TUI Infotec GmbH ('Infotec') that the Group did not already own, this business being reported as an associate in the year ended 30 September 2012.

Business	Description	Date	Country of incorporation
TUI Infotec GmbH	IT Services	5 November 2012	Germany

Other individually insignificant businesses acquired during the year include nine European-based travel agency businesses and the entire share capital of JBS Group, Inc, Isango! Limited and TT Visa Services Pte. Limited.

The relative size of the acquisitions made is set out in the table below:

Consideration £m	Number of acquisitions	Total consideration £m	Total goodwill £m
0 – 5	14	14	10
5+	1	16	14
Total	**15**	**30**	**24**

The total consideration for these acquisitions of £30m comprised £12m of initial cash consideration, £5m of deferred consideration, £4m of contingent consideration and £9m of non-cash consideration for the Group's share of Infotec that it previously owned.

The total provisional net assets acquired are set out below:

	Fair value of net assets acquired £m
Intangible assets	8
Property, plant and equipment	11
Deferred tax assets	5
Trade receivables	25
Cash	7
Current liabilities (excluding debt)	(27)
Non current liabilities (including debt)	(7)
Retirement benefits	(16)
Total	**6**
Total consideration	30
Less net assets acquired (as above)	(6)
Total goodwill	**24**

All acquisitions have been accounted for using the purchase method, as required by IFRS 3 (revised). Certain non-significant fair value adjustments have necessarily been prepared on a provisional basis due to the recent timing of certain acquisitions. Experience may result in revisions to fair values in the subsequent accounting period. No material amount of goodwill is expected to be deductible for tax purposes. There are no material accounting policy adjustments nor any significant differences between the book and fair values of assets and liabilities acquired. No single acquisition in the current year is considered material to goodwill and, as such, the provisional net asset table shown above has been presented as a total for all acquisitions in the year.

Notes to the consolidated financial statements
continued

13. Business combinations continued

Residual goodwill
A consistent process is undertaken for each acquisition to identify the fair value of separable assets and liabilities acquired, including the fair value of intangible assets, such as brands, order books, licences, customer relationships and other intangible assets that may exist. The residual goodwill on acquisition represents the value of assets and earnings that do not form separable assets under IFRS 3 (revised) but nevertheless are expected to contribute to the future results of the Group.

Residual goodwill in respect of current year acquisitions predominantly relates to the acquisition of Infotec and represents the ability to control fully that business with a view to drive cost reduction and economies of scale in the Group's IT infrastructure.

Acquisition related expenses
IFRS 3 (revised) requires consideration that is contingent on future service by the vendor to be expensed over the service period and acquisition costs to be expensed as incurred. In this respect, £8m (2012: £3m) has been expensed in the year and included in the acquisition related expenses in the consolidated income statement.

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Acquisition related expenses in operating profit		
Amortisation of business combination intangibles	**57**	59
Other acquisition related expenses	**2**	3
Remuneration for post-combination services	**6**	–
Total	**65**	62

Consideration payable
Movements in deferred and contingent consideration in the year were as follows:

	Deferred consideration £m	Contingent consideration £m	Loan notes £m	Total £m
At 1 October 2012	3	5	1	9
Recognised in the year relating to current year acquisitions	5	4	–	9
Cash paid	(3)	(2)	–	(5)
At 30 September 2013	**5**	**7**	**1**	**13**

Contingent consideration payable is dependent on the results of the businesses over a number of future periods and in some cases is also dependent upon the previous owners or management of those businesses remaining in employment with the Group during the earn out period.

No adjustments to amounts recognised in respect of prior year acquisitions have been made during the year. This follows the latest assessment of expected earnings figures for these acquired entities, with the consideration payable being based upon a multiple of the appropriate earnings figures.

An estimate of the range of undiscounted amounts of contingent consideration payable for acquisitions in the current year and in prior years, where the consideration remains payable, is listed below. The amounts payable will be dependent on the results of the acquired businesses over the following periods:

Acquisition	Basis of calculation for consideration payable	Financial year of acquisition	Period for calculation of consideration	Range of consideration payable £m
Lima Tours S.A.C.	Earnings and employment	2011	Up to 30 June 2014	1-4
Mala Pronta Viagens e Turismo Ltda.	Earnings and employment	2012	Up to 31 March 2014	0-1
JBS Group, Inc	Earnings and employment	2013	Up to 31 March 2015	0-3
Other individually insignificant considerations payable	Earnings (alone) and earnings & employment	2008-2013	Up to 31 December 2015	0-2
Total range of contingent consideration payable in respect of current and prior year acquisitions				**1-10**

The expected contingent consideration for all acquisitions above is calculated using multiples of underlying earnings, with some amounts payable dependent upon employment.

(B) Cash flows arising in respect of acquisitions
Total cash flows relating to acquisitions in the year, including amounts paid in respect of deferred and contingent consideration arising on prior period acquisitions, are as follows:

	Cash paid 2013 £m
Acquisitions in the current year (excluding acquisition related expenses)	12
Cash acquired with acquisitions	(7)
Net cash outflow in the year relating to current year acquisitions	5
Cash paid relating to prior period acquisitions	5
Net cash outflow in the year relating to acquisitions	**10**
Acquisition related expenses charged to the income statement	2
Total cash outflows in the year relating to acquisitions	**12**

(C) Consolidated income statement
If the results of the acquired businesses had been included in these consolidated financial statements from 1 October 2012 until each of their respective acquisition dates, the Group's revenue would have been approximately £7m higher. There would have been no significant impact on the Group's results after adjusting for amortisation of business combination intangibles had those intangible assets been recognised since 1 October 2012.

Since the respective acquisition dates, the acquired businesses contributed revenues of £26m, underlying earnings of £2m and loss after tax (including the amortisation of business combination intangibles) of £1m.

(D) Prior period revisions to fair values
In the year ended 30 September 2012, the Group acquired various businesses for a total consideration of £16m. The finalisation of the acquisition balance sheets for these businesses has not led to a material adjustment to goodwill presented in the 2012 accounts and therefore there is no restatement of the results for the year ended 30 September 2012, or balance sheet as at 30 September 2012 in respect of these finalisations.

14. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m
Intangible assets	**2**	7	**(145)**	(147)	**(143)**	(140)
Finance lease transactions	**–**	–	**(2)**	(2)	**(2)**	(2)
Property, plant and equipment	**86**	77	**(28)**	(38)	**58**	39
Financial instruments	**29**	19	**(13)**	(14)	**16**	5
Employee benefits	**94**	105	**(1)**	–	**93**	105
Other short term temporary differences	**138**	215	**(114)**	(200)	**24**	15
Tax value of losses carried forward	**91**	74	**–**	–	**91**	74
Total	**440**	497	**(303)**	(401)	**137**	96
Set off of deferred tax within the same jurisdiction	**(272)**	(372)	**272**	372	**–**	–
Net deferred tax assets	**168**	125	**(31)**	(29)	**137**	96

The Group has recognised deferred tax assets relating to tax losses in individual tax jurisdictions based on forecast future taxable profits.

Unrecognised deferred tax assets
Deferred tax assets have not been recognised in respect of the following items (reported at the applicable tax rate):

	30 September 2013 £m	30 September 2012 £m
Capital losses	**3**	2
Other tax losses	**267**	259
Total losses	**270**	261

These assets have not been recognised principally because the Directors are not certain of the timing of any benefits that might arise in the future. Other tax losses are primarily trading losses and include £6m which are subject to a four year expiry period. The balance of losses are not subject to time expiry and are available for utilisation against profits arising in future periods in the territories in which they have arisen. There are no other unprovided deferred tax liabilities nor unrecognised deferred tax assets.

Notes to the consolidated financial statements
continued

14. Deferred tax assets and liabilities continued

Movements in deferred taxation during the current year:

	Balance at 1 October 2012 £m	Arising on acquisition £m	Credited/(charged) to the consolidated income statement £m	Recognised outside of the consolidated income statement £m	Foreign exchange £m	**Balance at 30 September 2013 £m**
Intangible assets	(140)	–	–	–	(3)	**(143)**
Finance lease transactions	(2)	–	–	–	–	**(2)**
Property, plant and equipment	39	–	19	–	–	**58**
Financial instruments	5	–	(7)	22	(4)	**16**
Employee benefits	105	3	(6)	(11)	2	**93**
Other short term temporary differences	15	1	4	3	1	**24**
Tax value of losses carried forward	74	1	15	–	1	**91**
Total	96	5	25	14	(3)	**137**

Movements in deferred taxation during the prior year are analysed as follows:

	Balance at 1 October 2011 £m	Arising on acquisition £m	Extinguished on disposal £m	Reclassification £m	Charged in the consolidated income statement £m	Recognised outside of the consolidated income statement £m	Foreign exchange £m	Balance at 30 September 2012 £m
Intangible assets	(72)	–	–	(72)	(2)	–	6	(140)
Finance lease transactions	(2)	–	–	–	–	–	–	(2)
Property, plant and equipment	45	–	–	–	(8)	–	2	39
Financial instruments	(16)	–	4	–	–	15	2	5
Employee benefits	88	–	–	–	(14)	32	(1)	105
Other short term temporary differences	(57)	(1)	–	72	(8)	3	6	15
Tax value of losses carried forward	81	–	–	–	(4)	–	(3)	74
Total	67	(1)	4	–	(36)	50	12	96

Intangible asset temporary differences arise in respect of assets recognised on acquisition. Property, plant and equipment temporary differences principally relate to tax depreciation in the UK, France and Germany. Employee benefits temporary differences arise in respect of defined benefit pension scheme liabilities and future deductions available on the vesting of employee awards. Financial instruments and foreign exchange temporary differences arise in respect of financial instruments accounted for under IAS 39 and principally reflect the fair value at 30 September 2013 of cash flow hedging derivatives that will be settled against future transactions. Other short term temporary differences relate to operating expenses and related accruals and provisions for which a tax deduction has not yet been recognised.

15. Inventories

	30 September 2013 £m	30 September 2012 £m
Marine inventories	**22**	28
Airline spares and operating equipment	**20**	19
Other operating inventories	**15**	14
Total	**57**	61

Included within cost of sales in the year is a write-down of inventories by £3m (2012: £7m) to net realisable value.

16. Trade and other receivables

	30 September 2013			30 September 2012		
	Current assets £m	**Non-current assets £m**	**Total assets £m**	Current assets £m	Non-current assets £m	Total assets £m
Trade receivables, gross	**497**	**–**	**497**	548	–	548
Less: provision for impairment	**(49)**	**–**	**(49)**	(49)	–	(49)
	448	**–**	**448**	499	–	499
Amounts owed by related parties (Note 31)	**55**	**36**	**91**	52	34	86
Interest bearing other receivables	**7**	**3**	**10**	–	12	12
Other receivables	**189**	**56**	**245**	196	56	252
	699	**95**	**794**	747	102	849
Prepayments	**632**	**110**	**742**	565	123	688
Total	**1,331**	**205**	**1,536**	1,312	225	1,537

Other receivables include aircraft related receivables, lease and security deposits, derivative settlement receivables and various end of season rebates due from suppliers.

The maximum exposure to credit risk for financial assets, as defined in Note 1(E)(i), which are included within trade and other receivables by geographic region was:

	30 September 2013 £m	30 September 2012 £m
United Kingdom	**141**	191
Germany	**101**	111
France	**82**	91
Other European countries	**207**	216
Rest of the World	**91**	101
Total	**622**	710

Trade receivables are disclosed net of provisions for bad and doubtful debts, an analysis of which is shown below:

	30 September 2013 £m	30 September 2012 £m
Balance at the beginning of the year	**49**	58
Charge to the consolidated income statement	**15**	9
Utilisation of provision	**(15)**	(18)
Total	**49**	49

The ageing of the financial assets included within trade and other receivables at the balance sheet date was:

	30 September 2013			30 September 2012		
	Gross £m	**Provision £m**	**Net £m**	Gross £m	Provision £m	Net £m
Not overdue	**479**	**(5)**	**474**	482	(5)	477
Overdue 1-30 days	**73**	**(1)**	**72**	136	(1)	135
Overdue 31-90 days	**52**	**(1)**	**51**	65	(6)	59
Overdue 91-180 days	**13**	**(2)**	**11**	17	(6)	11
Overdue more than 180 days	**54**	**(40)**	**14**	59	(31)	28
Total	**671**	**(49)**	**622**	759	(49)	710

No individually material bad debt provision movements or charges have been recorded in the year. Based on past experience and the post balance sheet period to the date of approval of these consolidated financial statements, the Group considers that the provision allowance recorded is adequate. Within the provision there are no individually material amounts held. Trade receivables not overdue and not impaired include amounts due from travel agencies, tour operators and hoteliers in respect of Mainstream, Specialist & Activity and Accommodation & Destinations Sectors. Provisions for doubtful debts in respect of trade receivable balances are managed by each underlying business unit where the debts arise and are based on local management experience. Factors considered include the age of the receivable, previous experience with the counterparty and the economic environment in which the counterparty is located.

Credit exposure to individual customers booking holidays directly is limited as full payment is required before the issue of tickets and holiday departure. In the case of travel services sold by third party agents, the credit risk depends on the creditworthiness of those third parties, but this risk is also limited because of the relatively short period of credit. The Directors do not consider there to be significant concentration of credit risk relating to trade and other receivables.

Notes to the consolidated financial statements
continued

16. Trade and other receivables continued

Deposits and prepayments include amounts paid in advance to suppliers of hotel and other services in order to guarantee the provision of those supplies. There is a credit risk in respect of the continued operation of those suppliers during the period over which the supplies are made.

The provision against overdue receivables of £44m (2012: £44m) relates to gross receivables of £74m (2012: £78m).

There are £118m of receivables that are overdue and not impaired at 30 September 2013 (2012: £199m).

Amounts owed by related parties are disclosed further in Note 31.

17. Cash and cash equivalents

	30 September 2013 £m	30 September 2012 £m
Cash in hand	6	21
Cash at bank	920	265
Deposits	827	544
Cash and cash equivalents	**1,753**	830

For the year ended 30 September 2013, 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 £491m. In the year ended 30 September 2012, 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.

Cash and cash equivalents includes £47m (2012: £34m) 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 balance, the Group is involved in a long-running VAT case with the Belgian government. During the current financial year a total of £98m has been received from the Belgian government in relation to the disputed VAT for the years up to and including 30 September 2011, to stop the interest charge from accumulating should they lose the case eventually. The outcome of the case remains uncertain and is not expected to be finalised in the near future. Given the uncertainty, the Group continues to accrue VAT payable on the existing basis. 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.

18. Other investments

	30 September 2013 £m	30 September 2012 £m
Trade investments	30	–
Regulatory deposits with a term exceeding 3 months	5	17
Other deposits with a term exceeding 3 months	1	2
Other investments	**36**	19

Trade investments of £30m (2012: £nil) represents the portion of the Group's shareholding in The Airline Group Limited that is in the process of being disposed. Accordingly, the investment has been reclassified from non-current to current asset investments at the year end. Further details of this investment have been disclosed in Notes 12 and 26.

19. Assets classified as held for sale

	30 September 2013 £m	30 September 2012 £m
Yachts and motor boats	1	1
Land and buildings	5	–
Aircraft	–	5
Other	4	7
Net assets classified as held for sale	**10**	13

Assets held for sale are expected to be sold within 12 months. Further disclosure of assets being classified as held for sale within the year is included in Note 11.

20. Interest-bearing loans and borrowings

	30 September 2013 £m	30 September 2012 £m
Current liabilities		
Bank loans and overdrafts	528	6
Finance leases (and hire purchase contracts)	22	23
Other financial liabilities	44	41
Total	**594**	70

For the year ended 30 September 2013, 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 £491m. In the year ended 30 September 2012, 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 that 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. Details of the fair value of these options are included in Note 26(H).

Fair value changes in the put option liability are included within financial expenses or financial income.

	30 September 2013 £m	30 September 2012 £m
Non-current liabilities		
Amounts owed to related parties	–	10
Bank loans	61	17
Loan notes	1	1
Finance leases (and hire purchase contracts)	253	163
Convertible bonds	697	675
Other financial liabilities	–	2
Total	**1,012**	868

The bank loans and loan notes are repayable:

	30 September 2013 £m	30 September 2012 £m
Within one year	37	6
Between one and five years	62	18
Total	**99**	24

Certain loans are secured on the underlying assets of the company in whose name the borrowings are made, including all finance leases which are secured against their respective underlying assets.

Details of amounts owed to related parties are included in Note 31.

Finance lease liabilities relate primarily to the leasing of aircraft, boats, cruise ships and equipment. The increase in amounts due after five years is driven by four aircraft (2012: three aircraft) acquired in the year. These are treated as finance leases based on the terms of the leases, which include purchase options. Group obligations under finance leases and hire purchase contracts are payable as follows:

	Minimum lease payments					
	Principal £m	Interest £m	30 September 2013 £m	Principal £m	Interest £m	30 September 2012 £m
In respect of aircraft, boats, cruise ships and equipment payable within:						
One year	22	11	33	23	6	29
One to five years	83	38	121	66	25	91
After five years	170	34	204	97	16	113
Total	**275**	**83**	**358**	186	47	233

Convertible bonds

	30 September 2013 £m	30 September 2012 £m
£350m convertible bond 6.0% October 2014	336	326
£400m convertible bond 4.9% April 2017	361	349
Total	**697**	675

Notes to the consolidated financial statements
continued

20. Interest-bearing loans and borrowings continued

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. 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. Conversion into ordinary shares will occur at a premium of 33% to the Group's share price on the date of issuance.

The Group holds an Issuer call option to redeem the convertible bonds at their principal amounts, together with accrued interest, upon fulfilment of certain pre-determined criteria. The fair value of this option was negligible at 30 September 2013. The equity portion of the bonds of £114m (2012: £114m), gross of deferred tax of £23m (2012: £26m), is included in the convertible bond reserve.

Reconciliation of face value to carrying amount

	£350m convertible bond £m	£400m convertible bond £m	Total convertible bonds £m
Convertible bond – face value	350	400	750
Issue cost	(9)	(9)	(18)
Cash received	341	391	732
Equity portion	(48)	(66)	(114)
Interest accretion in prior years	27	22	49
Issue costs amortised in prior years	6	2	8
Carrying amount at 30 September 2012	326	349	675
Interest accretion	9	10	19
Amortisation of issue costs	1	2	3
Carrying amount at 30 September 2013	**336**	**361**	**697**

21. Current trade and other payables

	30 September 2013 £m	30 September 2012 £m
Trade payables	**931**	1,058
Deferred and contingent consideration (Note 13(A))	**4**	4
Other payables	**177**	105
Amounts owed to related parties (Note 31)	**97**	94
Other taxes and social security costs	**87**	98
Accruals and deferred income	**1,709**	1,521
Client money received in advance	**1,768**	1,669
Total	**4,773**	4,549

Further disclosure of amounts owed to related parties is included in Note 31.

22. Provisions for liabilities

	Aircraft maintenance £m	Restructuring £m	Other £m	Total £m
At 1 October 2012	398	63	155	616
Provided in the year	141	32	118	291
Released in the year	(10)	(3)	(8)	(21)
Unwinding of discounted amount (Note 5)	4	–	1	5
Costs incurred	(174)	(49)	(34)	(257)
Reclassification	–	(1)	(6)	(7)
Foreign exchange	6	3	3	12
At 30 September 2013	**365**	**45**	**229**	**639**
Analysed as:				
Non-current	266	–	96	362
Current	99	45	133	277
	365	**45**	**229**	**639**
At 30 September 2012				
Analysed as:				
Non-current	235	2	79	316
Current	163	61	76	300
	398	63	155	616

Aircraft maintenance

In respect of aircraft, provision is made for maintenance, overhaul and repair costs of operating leased airframes, engines and certain other components based on the anticipated external costs of the next maintenance event calculated by reference to costs experienced and published manufacturers' data. The charge to the consolidated income statement is calculated by reference to the number of hours and cycles flown and by reference to the length of the full overhaul cycle. Costs incurred are charged against the provision. Neither the timing nor the value of the expenditure can be precisely determined but they can be averaged over time and over the number of aircraft in the fleet.

The provision is expected to be utilised within 12 years of the balance sheet date depending upon the timing of maintenance events or end of lease dates where compensation is payable.

Restructuring

Restructuring, which includes severance payments, relates to provisions arising as a result of reorganisation and restructuring plans that are irrevocably committed. Further details of significant restructuring projects in the current year are set out in Note 4.

The provision is expected to be utilised within 12 months of the balance sheet date.

Other

Other provisions relate to litigation, obligations under denied boarding compensation regulations, onerous lease contracts that have been entered into in the ordinary course of business and other future obligations, the amount or timing of which is uncertain. A significant portion of the provision is anticipated to be utilised within 12 months of the balance sheet date, while the remainder is expected to be utilised within one to four years of the balance sheet date, although the timing and payments related to individual litigation claims are estimated and are inherently uncertain.

The Group has a policy to mitigate the financial risk of litigation and disaster through insurance with third party providers and the use of captive insurance companies. The Group's exposure to risk is capped by single event and aggregate limits, with insurance in place for exposures above these limits.

The Group provides for outstanding claims, including settlement expenses, using a consistent methodology based upon historical claims patterns, average claims amounts, external legal advice and future expectations.

23. Non-current trade and other payables

	30 September 2013 £m	30 September 2012 £m
Deferred and contingent consideration (Note 13(A))	**8**	4
Other payables	**37**	28
Amounts owed to related parties (Note 31)	**1**	1
Accruals and deferred income	**25**	13
Client money received in advance	**8**	2
Total	**79**	48

24. Called up share capital

	30 September 2013 £m	30 September 2012 £m
Issued and fully paid		
1,118,010,670 (2012: 1,118,010,670) ordinary shares of 10p each	**112**	112
Total	**112**	112

As described more fully in Note 36, the ultimate parent company, TUI AG, is the beneficial owner of 54.48% (2012: 56.26%) of the Company's issued ordinary share capital as at 30 September 2013.

At 30 September 2013, 8,047,575 shares (2012: 9,545,591 shares) were held by the Group's Employee Benefit Trust. Based on 30 September 2013 share price of £3.68 (2012: £2.34) the value of shares held was £29,615,076 (2012: £22,336,683).

Details of dividends debited to equity in the year are set out in Note 9.

Whilst the Company has the authority to purchase its own shares, it has not done so in either the current or prior years.

Notes to the consolidated financial statements
continued

25. Capital and reserves

	Note	Called up share capital £m	Convertible bond reserve £m	Other reserves: Merger reserve £m	Other reserves: Translation reserve £m	Other reserves: Hedging reserve £m	Accumulated losses £m	Equity holders of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 October 2011		112	85	2,523	286	37	(1,155)	**1,888**	50	**1,938**
Profit for the year		–	–	–	–	–	138	**138**	(1)	**137**
Other comprehensive (loss)/ income for the year										
Foreign exchange translation		–	–	–	(157)	(5)	4	**(158)**	(2)	**(160)**
Actuarial losses	6(C)	–	–	–	–	–	(172)	**(172)**	–	**(172)**
Tax on actuarial losses	8(iii)	–	–	–	–	–	32	**32**	–	**32**
Cash flow hedges:										
– movement in fair value	26(J)	–	–	–	–	(42)	–	**(42)**	–	**(42)**
– amounts recycled to the consolidated income statement	26(J)	–	–	–	–	(30)	–	**(30)**	–	**(30)**
Tax on cash flow hedges	8(iii)	–	–	–	–	15	–	**15**	–	**15**
Available for sale financial assets:										
– movement in fair value	12	–	–	–	–	–	(4)	**(4)**	–	**(4)**
– amounts recycled to the consolidated income statement		–	–	–	–	–	10	**10**	–	**10**
Other comprehensive loss for the year		–	–	–	(157)	(62)	(130)	**(349)**	(2)	**(351)**
Total comprehensive (loss)/income for the year		–	–	–	(157)	(62)	8	**(211)**	(3)	**(214)**
Transactions with owners										
Share-based payment – charge for the year		–	–	–	–	–	16	**16**	–	**16**
Share-based payment – disposal on award of shares		–	–	–	–	–	(5)	**(5)**	–	**(5)**
Dividends	9	–	–	–	–	–	(125)	**(125)**	(3)	**(128)**
Acquisition of non-controlling interest		–	–	–	–	–	(1)	**(1)**	–	**(1)**
Change in deferred tax rate on equity portion of convertible bond		–	3	–	–	–	–	**3**	–	**3**
At 30 September 2012		112	88	2,523	129	(25)	(1,262)	**1,565**	44	**1,609**

	Note	Called up share capital £m	Convertible bond reserve £m	Other reserves: Merger reserve £m	Other reserves: Translation reserve £m	Other reserves: Hedging reserve £m	Accumulated losses £m	Equity holders of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 October 2012		112	88	2,523	129	(25)	(1,262)	**1,565**	44	**1,609**
Profit for the year		–	–	–	–	–	60	**60**	3	**63**
Other comprehensive income/ (loss) for the year										
Foreign exchange translation		–	–	–	56	1	(10)	**47**	(4)	**43**
Actuarial losses	6(C)	–	–	–	–	–	(23)	**(23)**	–	**(23)**
Tax on actuarial losses	8(iii)	–	–	–	–	–	(11)	**(11)**	–	**(11)**
Cash flow hedges:										
– movement in fair value	26(J)	–	–	–	–	(76)	–	**(76)**	–	**(76)**
– amounts recycled to the consolidated income statement	26(J)	–	–	–	–	(5)	–	**(5)**	–	**(5)**
Tax on cash flow hedges	8(iii)					22	–	**22**	–	**22**
Available for sale financial assets:										
– movement in fair value	12	–	–	–	–	–	1	**1**	–	**1**
Other comprehensive income/(loss) for the year		–	–	–	56	(58)	(43)	**(45)**	(4)	**(49)**
Total comprehensive income/(loss) for the year		–	–	–	56	(58)	17	**15**	(1)	**14**
Transactions with owners										
Share-based payment – charge for the year		–	–	–	–	–	15	**15**	–	**15**
Share-based payment – disposal on award of shares		–	–	–	–	–	(16)	**(16)**	–	**(16)**
Dividends	9	–	–	–	–	–	(130)	**(130)**	(2)	**(132)**
Acquisition of non-controlling interest		–	–	–	–	–	(2)	**(2)**	–	**(2)**
Change in deferred tax rate on equity portion of convertible bond		–	3	–	–	–	–	**3**	–	**3**
At 30 September 2013		112	91	2,523	185	(83)	(1,378)	**1,450**	41	**1,491**

Convertible bond reserve
The convertible bond reserve comprises the equity element of the convertible bonds and the related portion of the bonds' issue costs (see Note 20). The equity element is calculated in accordance with the accounting policy described in Note 1(E)(ii) and is presented net of deferred tax.

Other reserves
Details of dividends to equity holders of the Parent Company which have been debited to equity in the year are set out in Note 9.

Exchange gains or losses arising on the translation to the Group's reporting currency are recorded in the translation reserve. The hedging reserve records the portion of the cumulative gains or losses on hedging instruments in cash flow hedges that are determined as effective. Gains or losses arising on cash flow hedges are initially recorded in the hedge reserve and are recycled to the consolidated income statement in accordance with the accounting policy in Note 1(F).

The Group also has a non-distributable capital reserve of £0.1m at 30 September 2013 (2012: £0.1m).

Notes to the consolidated financial statements
continued

26. Financial instruments

(A) Treasury risk overview
The Group is exposed to a variety of financial risks:

- Market risk (in respect of foreign currency rate risk, jet fuel price risk and interest rate risk);
- Liquidity risk (in respect of the Group's ability to meet its liabilities);
- Credit risk (in respect of recovery of amounts owing to the Group); and
- Capital risk (in respect of its capital structure and cost of capital).

The Group's key financial market risks are in relation to foreign currency rates and jet fuel prices. Currency risk results from the substantial cross-border element of the Group's trading and arises on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of individual Group businesses. The risk is managed by the use of foreign exchange forward, swap and option contracts. The Group's exposure to jet fuel prices results from the aircraft fleet operations and is managed using commodity swaps and options.

The Group is exposed to interest rate risk that arises principally from the Group's floating rate aircraft leases and floating rate bank loans and cash balances. Certain finance leases and loans have fixed interest rates.

Credit risk and liquidity risk are considered in Notes 26(D) and 26(F) respectively. Capital management, including capital risk and cash conversion, is considered in Notes 34 and 27(B) respectively.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and for ensuring that the Group has adequate policies, procedures and controls to successfully manage the financial risks that it faces. These form part of the Group's overall Risk Management Framework (the framework).

Incorporated within the framework's terms of reference are the determination of all treasury policies and the monitoring of the effectiveness of those policies. Group Treasury implements the agreed policies on a day-to-day basis. The procedures also stipulate the levels of authority applied to approving and to dealing the types of hedging financial instrument used to manage these exposures. Transactions are only undertaken to hedge underlying exposures. Financial instruments are not traded, nor are speculative positions taken.

The treasury position of the Group, including liquidity, foreign exchange and fuel hedging exposure, is managed centrally in accordance with policies appropriate to cover specific risks faced by each business unit and is the responsibility of the Chief Financial Officer and Group Treasurer.

Group Treasury conducts regular reviews of financial risks with business unit management teams and receives regular cash flow forecasts and, where relevant, jet fuel usage forecasts from each business unit to ensure hedging instruments match the currency or fuel requirements of each operating business. Reports and forecasts for the Group, showing hedging instruments and forecast requirements, are submitted monthly to the GMB and to each Board meeting of TUI Travel PLC.

In line with its established policy, the Group has monitored throughout the year its counterparty exposure with individual financial institutions. Such counterparty risk can arise by way of cash deposited or derivative instruments traded.

(B) Currency risk management
The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of individual Group businesses (which are principally Sterling, US Dollar, Euro and Swedish Krona).

The Group hedges its foreign currency exposures on a seasonal basis, that is Winter and Summer, with each season comprising a six-month period. At the start of a season the Group will have hedged substantially all of its foreign currency exposure (forecast sales and purchases and related assets and liabilities) for that season, using predominantly forward exchange contracts and option based instruments, most with a maturity of less than one year from the reporting date.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level, principally by using forward contracts in respect of non-Sterling denominated airline maintenance provision balances, loan balances and deposits.

The Group publishes its consolidated financial statements in Sterling and, as a result, it is also subject to foreign currency exchange translation risk in respect of the translation of the results and underlying net assets of its foreign operations into Sterling.

The following significant exchange rates to the Group's Sterling presentation currency (excluding the impact of hedged transactions) are illustrative of the rates applied during the current and prior year:

	Average rate		Mid spot rate	
£1 GBP equivalent	**Year ended 30 September 2013**	Year ended 30 September 2012	**30 September 2013**	30 September 2012
US Dollar	**1.561**	1.589	**1.615**	1.620
Euro	**1.190**	1.203	**1.196**	1.253
Swedish Krona	**10.225**	10.635	**10.355**	10.588

As at 30 September 2013, the Group has hedged forecast transactions for $4.3bn (2012: $4.1bn) and €1.3bn (2012: €1.8bn) for periods up until Winter 2014 principally relating to Winter 2013 and Summer 2014.

(C) Commodity risk
Fuel commodity risk arises from the Group's operation of aircraft.

The Group hedges its fuel commodity exposures on a seasonal basis, being Winter and Summer, with each season comprising a six-month period. At the start of a season the Group will have hedged substantially all of its fuel commodity exposure for that season, using predominantly commodity swaps or options, most with a maturity of less than one year from the reporting date.

As at 30 September 2013, the Group has hedged transactions for fuel of 1.7m metric tonnes (2012: 2.0m metric tonnes) for periods up until Winter 2014.

Details of fuel forward derivative instruments are set out in Note 26(I).

(D) Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash balances (including bank deposits and cash and cash equivalents) and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables, financial guarantees and committed transactions. Credit risk is managed separately for treasury and operating related credit exposures.

The Group minimises its financial credit risk through the application of risk management policies approved and monitored by the Board. While counterparties are limited to major banks and financial institutions, Group policy ensures that individual counterparty limits are adhered to and that there are no significant concentrations of credit risk. The only exception to this at 30 September 2013 was the £98m received from the Belgian government in relation to the long running VAT case (Note 17). This money is currently deposited with one financial institution to enable a collateralised bank guarantee to be provided to the Belgian government. The Group monitors the credit ratings of its counterparties (where applicable) as part of its ongoing assessment of its credit exposure. Material financial instruments are only transacted with major financial institutions with a strong credit rating of A1/P1 or A2/P2.

Loans and other receivables exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer. There is no material concentration of credit risk with respect to trade and other receivables as the Group has a large number of internationally dispersed customers.

The maximum credit exposure to the carrying amount of financial assets at the balance sheet date is shown in the table below.

	Carrying value 30 September 2013 £m	Carrying value 30 September 2012 £m
Trade and other receivables (Note 16)	**622**	710
Cash and cash equivalents (Note 17)	**1,753**	830
Derivatives – contracts used for hedging (Note 26(I))	**44**	119
Trade and listed investments (Note 12)	**23**	46
Other investments (Note 18)	**36**	19
Total	**2,478**	1,724

The maximum exposure to credit risk for total trade and other receivables at the balance sheet date and by geographic region as well as their ageing is disclosed in Note 16. Trade and other receivables are shown net of provision for bad and doubtful debts of £49m (2012: £49m).

Cash, cash equivalents and other investments principally comprise money market deposits and other short term investments. The investments are predominantly with counterparties with a strong credit rating of A1/P1 or A2/P2. At 30 September 2013, approximately 42% (2012: 27%) of the Group's unrestricted cash and cash equivalents were invested with counterparties based in the United Kingdom, and 38% (2012: 53%) were based with counterparties based in the Republic of Ireland.

Trade and other receivables exclude prepaid accommodation and other prepayments which do not meet the definition of a financial instrument. Prepayments for hotel accommodation, whilst not meeting the definition of a financial asset under IAS 39, give rise to a risk similar to credit risk due to the inherent risk of the Group not recovering the prepayment through full delivery of the related goods and services. From time to time prepayments can concentrate risk with specific counterparties which are based overseas. The carrying amount of prepayments (which are presented within current and non-current assets) forms their maximum credit exposure, before taking into account any security or collateral held by the Group. Where appropriate, the Group obtains security collateral over the related accommodation property to mitigate credit risk. At 30 September 2013, prepaid accommodation which is recoverable after more than one year was £108m (2012: £122m).

Notes to the consolidated financial statements
continued

26. Financial instruments continued

(E) Interest rate risk

The Group manages interest rate risk by fixing interest rates for the majority of the Group's longer term debt. Variable interest generally applies to shorter term debt and that which fluctuates with working capital flows. Variable rate interest on pooled bank overdrafts is offset by similar credit interest on cash held elsewhere in the currency pools. The Group has exposure to interest rate risk arising principally on Sterling, US Dollar, and Euro floating interest rates that are attached to the Group's floating rate aircraft leases and floating rate bank loans and cash balances.

The Group does not account for any fixed rate financial liabilities at fair value through profit and loss.

The Group's loans and borrowings are measured at amortised cost with the exception of the other financial liabilities which are carried at fair value as follows:

Financial instrument	Currency	Nominal interest rate	Year of maturity	**Carrying amount 30 September 2013 £m**	Carrying amount 30 September 2012 £m
Convertible bonds (Note 20)	Sterling	4.9% – 6.0%	2014 – 2017	**697**	675
Secured bank loans	Sterling	1.2% – 3.2%	2013 – 2018	**19**	18
	EUR	1.9% – 5.0%	2013 – 2027	**16**	2
	USD	4.0% – 4.8%	2014 – 2024	**60**	–
Unsecured bank loans	EUR	2.6% – 3.9%	2013 – 2016	**3**	3
				98	23
Finance leases	EUR	1.3 – 8.4%	2013 – 2046	**74**	80
	USD	4.5% – 9.0%	2013 – 2022	**198**	101
	MAD	5.9% – 6.5%	2014 – 2017	**2**	2
	AUD	7.2% – 11.8%	2013 – 2015	**1**	3
				275	186
Loan notes	USD	6.5%	2016	**1**	1
Amounts owed to related parties	USD	5.9%		**–**	10
Other financial liabilities	EUR	0% – 5.0%	2013 – 2014	**44**	43
Bank overdrafts	EUR	0.5%	On demand	**491**	–
Total interest-bearing liabilities				**1,606**	938
Analysed between:					
Fixed rate instruments				**1,057**	817
Variable rate instruments				**549**	121
				1,606	938

The interest rate applicable to bank overdrafts above is the amount charged in respect of the balance shown. Any balances offsetting this in the Group's pooling arrangements are credited at a similar rate to the entities concerned.

(F) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances.

The Group's liquidity peaks in July and August, during the European summer holiday season, with the liquidity low point being in December and January. To manage the liquidity position the Group is able to draw cash advances under its existing bank facilities which, at 30 September 2013, principally comprised the following main sources of long term debt funding:

- The external bank revolving credit facilities totalling £1,120m (2012: £970m) plus bonding and letter of credit facilities totalling £185m (2012: £185m) which all mature in June 2015. From these facilities, £136m has been utilised for letter of credit purposes at 30 September 2013 (2012: £162m);
- A £350m convertible bond (due October 2014) issued in October 2009;
- A £400m convertible bond (due April 2017) issued in April 2010; and
- A £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.

The external bank revolving credit facility is used to manage the seasonality of the Group's cash flows and liquidity. Cash positions, liquidity and available facility headroom are monitored daily by the Group Treasury Department.

The Board remains satisfied with the Group's funding and liquidity position. Fixed charges cover and the ratio of net debt to EBITDA, which the Board believes to be the most useful measures of cash generation and gearing, as well as being the main basis for covenants in the external credit facilities, were met at the year end and throughout the year. Fixed charges cover is defined as earnings before interest, tax, depreciation, amortisation and operating lease rentals charge (EBITDAR) divided by net interest plus operating lease rentals. EBITDA is defined as earnings before interest, tax, depreciation and amortisation. Both covenants are measured on an 'underlying basis' as defined in Note 1(B)(ii).

In respect of the delivery of new aircraft, the Group's established strategy is to refinance new aircraft in advance of their delivery dates and therefore the Group does not forecast to use internal cash resources for new aircraft purchases. Details of aircraft purchase commitments at the year end are given in Note 29.

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments calculated using interest rates in force at each balance sheet date:

30 September 2013	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and two years £m	Between two and five years £m	More than five years £m
Non-derivative financial liabilities						
Convertible bonds	**697**	**860**	**41**	**380**	**439**	**–**
Bank overdrafts	**491**	**491**	**491**	**–**	**–**	**–**
Secured bank loans	**95**	**115**	**37**	**10**	**25**	**43**
Unsecured bank loans	**3**	**3**	**2**	**1**	**–**	**–**
Finance leases	**275**	**358**	**33**	**36**	**85**	**204**
Loan notes	**1**	**1**	**–**	**–**	**1**	**–**
Other financial liabilities	**44**	**44**	**44**	**–**	**–**	**–**
Trade and other payables	**2,733**	**2,733**	**2,687**	**46**	**–**	**–**
Derivative financial liabilities						
Contracts used for hedging	**173**	**168**	**149**	**19**	**–**	**–**
Total	**4,512**	**4,773**	**3,484**	**492**	**550**	**247**

30 September 2012	Carrying amount £m	Contractual cash flows £m	Within one year £m	Between one and two years £m	Between two and five years £m	More than five years £m
Non-derivative financial liabilities						
Convertible bonds	675	901	41	41	819	–
Secured bank loans	20	21	4	12	5	–
Unsecured bank loans	3	4	–	4	–	–
Finance leases	186	233	29	23	68	113
Loan notes	1	1	–	–	1	–
Related parties	10	11	–	–	11	–
Other financial liabilities	43	44	44	–	–	–
Trade and other payables	2,618	2,618	2,581	37	–	–
Derivative financial liabilities						
Contracts used for hedging	145	138	125	13	–	–
Total	3,701	3,971	2,824	130	904	113

The timing reflected in the tables above is based on the first date that the Group can be contractually required to settle the liability. In respect of revolving credit facilities, the timing of repayments will vary.

Trade and other payables exclude customers' monies received in advance, deferred income, contingent consideration and other non-contractual payables.

At 30 September 2013, the Group had available undrawn committed borrowing facilities of £1,192m (2012: £1,018m), comprising letters of credit, guarantees and revolving, floating rate credit facilities for cash borrowings. Any non-compliance with covenants underlying the Group's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements. The Group was in full compliance with its financial covenants throughout both years.

Undrawn facilities are analysed as follows:

	30 September 2013 £m	30 September 2012 £m
Expiring:		
In more than one year but less than five years	**1,192**	1,018

Notes to the consolidated financial statements
continued

26. Financial instruments continued

(G) Analysis of total financial assets and financial liabilities

The tables below set out the Group's IAS 39 classification for each of its financial assets and liabilities:

At 30 September 2013	Financial assets and liabilities at fair value through profit and loss £m	Derivative financial instruments used in hedge accounting £m	Available for sale financial assets £m	Loans and receivables £m	Financial liabilities at amortised cost £m	Total carrying value £m
Cash and cash equivalents	–	–	–	1,753	–	1,753
Borrowings due within one year	(41)	–	–	–	(553)	(594)
Borrowings due after more than one year	–	–	–	–	(1,012)	(1,012)
Derivative assets	2	42	–	–	–	44
Derivative liabilities	(26)	(147)	–	–	–	(173)
Other financial assets	35	–	18	628	–	681
Other financial liabilities	(7)	–	–	–	(2,726)	(2,733)
Total	(37)	(105)	18	2,381	(4,291)	(2,034)

At 30 September 2012	Financial assets and liabilities at fair value through profit and loss £m	Derivative financial instruments used in hedge accounting £m	Available for sale financial assets £m	Loans and receivables £m	Financial liabilities at amortised cost £m	Total carrying value £m
Cash and cash equivalents	–	–	–	830	–	830
Borrowings due within one year	(38)	–	–	–	(32)	(70)
Borrowings due after more than one year	–	–	–	–	(868)	(868)
Derivative assets	17	102	–	–	–	119
Derivative liabilities	(21)	(124)	–	–	–	(145)
Other financial assets	30	–	16	729	–	775
Other financial liabilities	(3)	–	–	–	(2,615)	(2,618)
Total	(15)	(22)	16	1,559	(3,515)	(1,977)

Other financial assets comprise trade receivables, other receivables and other investments which are receivable within and after more than one year. Other financial liabilities comprise trade payables, accruals and other financial liabilities which are payable within and after more than one year.

Interest payable on financial instruments carried at amortised cost (mainly comprising convertible bonds, bank loans and finance lease liabilities) is disclosed in Note 5.

Derivatives presented under held for trading under IAS 39 classifications are analysed in Note 26(I) between cash flow hedges and derivatives not hedge accounted.

Further information in relation to changes in other financial assets at fair value through profit and loss are shown in Note 12.

(H) Fair value of financial assets and financial liabilities

The fair values of financial assets and liabilities, together with carrying amounts shown in the consolidated balance sheet at 30 September 2013 and at 30 September 2012, are as follows:

	30 September 2013		30 September 2012	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Cash and cash equivalents	1,753	1,753	830	830
Borrowings				
Convertible bond	(697)	(883)	(675)	(750)
Bank loans and overdrafts	(589)	(589)	(23)	(23)
Loan notes	(1)	(1)	(1)	(1)
Finance lease liabilities	(275)	(280)	(186)	(191)
Other financial liabilities	(44)	(44)	(43)	(43)
Amounts owed to related parties	–	–	(10)	(10)
Derivative financial instruments				
Forward exchange contracts used for hedging				
– assets	36	36	75	75
– liabilities	(148)	(148)	(129)	(129)
Commodity contracts used for hedging				
– assets	8	8	44	44
– liabilities	(25)	(25)	(16)	(16)
Other financial assets				
Trade and other receivables	622	622	710	710
Trade and listed investments	23	23	46	46
Other investments	36	36	19	19
Other financial liabilities				
Current trade and other payables	(2,687)	(2,687)	(2,581)	(2,581)
Non-current trade and other payables	(46)	(46)	(37)	(37)
Total	(2,034)	(2,225)	(1,977)	(2,057)

The basis for fair value measurement of financial assets and liabilities is set out in Note 1(W).

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 consolidated financial statements
continued

26. Financial instruments continued

The Group's financial assets and liabilities, excluding finance lease liabilities, measured at fair value at 30 September 2013 are categorised as follows:

At 30 September 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair value £m
Assets				
Trade, listed and other investments	**11**	**–**	**42**	**53**
Derivative financial instruments	**–**	**44**	**–**	**44**
Total assets	**11**	**44**	**42**	**97**
Liabilities				
Derivative financial instruments	**–**	**(173)**	**–**	**(173)**
Other financial liabilities	**–**	**–**	**(48)**	**(48)**
Total liabilities	**–**	**(173)**	**(48)**	**(221)**
Total	**11**	**(129)**	**(6)**	**(124)**

At 30 September 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair value £m
Assets				
Trade, listed and other investments	10	–	36	46
Derivative financial instruments	–	119	–	119
Total assets	10	119	36	165
Liabilities				
Derivative financial instruments	–	(145)	–	(145)
Other financial liabilities	–	–	(41)	(41)
Total liabilities	–	(145)	(41)	(186)
Total	10	(26)	(5)	(21)

The movements in level 3 instruments, measured on a recurring basis, for the year ended 30 September 2013 are as follows:

	Trade and other investments £m	Other financial liabilities £m	Total level 3 instruments £m
At 1 October 2011	37	(43)	(6)
Cash settlement of contingent consideration	–	3	3
Adjustment of deferred consideration through goodwill	–	(2)	(2)
Foreign exchange recognised in other comprehensive income	(1)	1	–
At 1 October 2012	36	(41)	(5)
Cash settlement of contingent consideration	–	2	2
Purchase of trade investment	1	–	1
Increase in value of trade investment	5	–	5
Charged to income statement	–	(6)	(6)
Foreign exchange recognised in other comprehensive income	–	(3)	(3)
At 30 September 2013	**42**	**(48)**	**(6)**

Trade and listed investments

As at 30 September 2013, £42m (2012: £36m) of trade and other investments were categorised as level 3 instruments. These consist of the Group's £35m (2012: £30m) investment in The Airline Group Limited and other trade investments in the equity of unlisted companies of £7m (2012: £6m). Of the £35m in respect of The Airline Group Limited, £30m (2012: £nil) is disclosed as an other investment in current assets (Note 18) and £5m (2012: £30m) is disclosed as an other investment in non current assets (Note 12).

The Group's investment in The Airline Group Limited is valued using the offer received during 2013 for the majority of the investment, the conditional disposal for which was agreed post year end and announced on 19 November 2013. In the absence of any robust market valuation, in 2012, the investment was valued by a third party using a discounted cash flow methodology. The key assumptions included estimates of future operating results and the level of future contributions to its pension schemes, the latter of which was a key uncertainty in the valuation.

The level 1 trade investment mainly consists of the Group's holding in Air Berlin PLC. See Note 12 for further details of this investment.

Derivative assets and liabilities

Derivatives are valued in the market using discounted cash flow techniques. These techniques incorporate inputs at level 2, such as interest rates 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

The principal element of the put options to acquire the remaining equity stake in L'TUR Tourismus AG (£38m) (2012: £38m) 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 £7m 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.

(I) Derivative instruments

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

	30 September 2013			30 September 2012		
	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	**34**	**(122)**	**(88)**	58	(108)	(50)
Commodity options	**–**	**(1)**	**(1)**	5	(2)	3
Commodity swaps	**8**	**(24)**	**(16)**	39	(14)	25
	42	**(147)**	**(105)**	102	(124)	(22)
Derivatives not hedge accounted						
Foreign exchange forwards	**2**	**(26)**	**(24)**	17	(21)	(4)
Total	**44**	**(173)**	**(129)**	119	(145)	(26)
Analysed as:						
Current	**41**	**(147)**	**(106)**	98	(125)	(27)
Non-current	**3**	**(26)**	**(23)**	21	(20)	1
Total	**44**	**(173)**	**(129)**	119	(145)	(26)

The following table indicates the periods in which the cash flows associated with derivatives are expected to occur. Future cash flows have been estimated based on spot rates and prices at 30 September 2013 and have been shown net for each instrument.

	Projected cash flows			
30 September 2013	**Less than one year £m**	**Between one and two years £m**	**Between two and five years £m**	**Over five years £m**
Derivative financial assets				
Foreign exchange forwards	**47**	**3**	**–**	**–**
Commodity swaps	**11**	**5**	**1**	**–**
	58	**8**	**1**	**–**
Derivative financial liabilities				
Foreign exchange forwards	**(142)**	**(19)**	**–**	**–**
Commodity swaps	**(7)**	**–**	**–**	**–**
	(149)	**(19)**	**–**	**–**
Total	**(91)**	**(11)**	**1**	**–**

	Projected cash flows			
30 September 2012	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m
Derivative financial assets				
Foreign exchange forwards	72	6	–	–
Commodity swaps	50	19	1	
Commodity options	3	–	–	–
	125	25	1	–
Derivative financial liabilities				
Foreign exchange forwards	(121)	(13)	–	–
Commodity swaps	(4)	–	–	–
	(125)	(13)	–	–
Total	–	12	1	–

Ineffectiveness

Ineffectiveness in respect of cash flow hedges has been recognised in the consolidated income statement for the year. Ineffectiveness for the year ended 30 September 2013 comprised a debit of £3m (2012: £3m credit) relating to fuel hedging and this is included within cost of sales in the consolidated income statement. In respect of foreign exchange hedging ineffectiveness, this comprised a credit of £1m (2012: £2m debit) which is included in cost of sales in the consolidated income statement.

Notes to the consolidated financial statements
continued

26. Financial instruments continued

(J) Amounts recognised in equity
The following amounts have been recognised in equity during the year:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Hedging reserve		
Effective portion of changes in fair value of cash flow hedging instruments	**(76)**	(42)
Fair value of cash flow hedges recycled to the consolidated income statement	**(5)**	(30)
	(81)	(72)

Deferred tax on the above items recognised outside of the consolidated income statement is shown in Note 8(iii).

(K) Sensitivity analysis
This sensitivity analysis is for illustrative purposes only and should not be considered a projection of likely future events and gains or losses.

This sensitivity analysis includes the following assumptions:

- changes in market interest rates only affect interest income or expense of variable financial instruments;
- changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value;
- changes in market interest, currency and fuel rates affect the fair value of derivative financial instruments designated as hedging instruments and the majority of hedges are expected to be highly effective; and
- changes in the fair value of derivative financial instruments and other financial assets or liabilities are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

The Group has used a sensitivity analysis technique that measures the estimated change to the consolidated income statement and equity of a 1% (100 basis points) difference in market interest rates or a 10% strengthening or weakening in Sterling against all other currencies and in fuel prices, from the rates applicable at the balance sheet date, with all other variables remaining constant, these being considered to be reasonably possible changes to interest rates, Sterling rates and fuel prices.

Interest rate risk
Under the above assumptions, a 100 basis points increase in interest rates would result in a less than £1m increase in interest expense in the consolidated income statement and equity (2012: increase of £3m). A 100 basis points reduction in interest rates is not considered reasonably possible.

Currency risk
The Group hedges substantially all of its foreign currency exposures not denominated in the functional currency of individual Group companies. This mitigates the sensitivity impact of fluctuations in the underlying exchange rates.

The vast majority of hedging instruments used by the Group qualify for hedge accounting with the fair value movements booked to equity. However, the Group uses structured foreign exchange instruments to hedge a small proportion of its Euro and US Dollar requirements. As these contracts do not qualify for hedge accounting, the fair value movements are recognised in the consolidated income statement. A 10% strengthening or weakening of Sterling against the Euro and US Dollar on these instruments would have reduced profit before tax by £21m or increased it by £21m respectively.

Similarly, under the above assumptions, a 10% strengthening or weakening of Sterling against all principal exchange rates would have reduced profit before tax by £16m (2012: reduced profit before tax by £5m) or increased it by £18m (2012: increased profit before tax by £6m) respectively. Equity (before tax) would have decreased by £226m (2012: £207m) or increased by £276m (2012: £253m) respectively.

Fuel price risk
The sensitivity analysis is based on a 10% increase or decrease in fuel prices and the sensitivity will differ correspondingly if the fuel markets are more or less volatile. Under these assumptions, with a 10% increase or decrease in the unit price of fuel, profit before tax would neither increase nor decrease materially, because of the fuel price hedging policy and appropriate pricing adjustments. Equity (before tax) would increase by £97m (2012: £110m), or decrease by £96m (2012: £109m) respectively.

27. Movements in cash and net debt and cash conversion

(A) Movements in cash and net debt

	Cash and cash equivalents £m	Convertible bonds £m	Amounts due to related parties £m	Bank loans & overdrafts £m	Loan notes £m	Finance leases £m	Other financial liabilities £m	Total £m	Restricted cash £m	Available net (debt)/cash £m
At 1 October 2011	902	(654)	(36)	(30)	(1)	(132)	(45)	**4**	(46)	**(42)**
Cash movement	17	–	23	5	–	19	1	**65**	12	**77**
Non-cash movement	–	(21)	–	–	–	(83)	(3)	**(107)**	–	**(107)**
Foreign exchange	(89)	–	3	2	–	10	4	**(70)**	–	**(70)**
At 30 September 2012	830	(675)	(10)	(23)	(1)	(186)	(43)	**(108)**	(34)	**(142)**
Cash movement	390	–	1	(41)	–	26	2	**378**	(111)	**267**
Non-cash movement	491	(22)	9	(524)	–	(113)	(1)	**(160)**	–	**(160)**
Foreign exchange	42	–	–	(1)	–	(2)	(2)	**37**	–	**37**
At 30 September 2013	**1,753**	**(697)**	**–**	**(589)**	**(1)**	**(275)**	**(44)**	**147**	**(145)**	**2**

As set out in Note 17, cash and cash equivalents included £145m (2012: £34m) of restricted cash.

The 2013 non-cash movement of £22m (2012: £21m) in convertible bonds primarily relates to the accretion of the equity portion of the convertible bonds.

The 2013 non-cash movement of £491m (2012: £nil) between cash and cash equivalents and bank loans and overdrafts reflects the impact of specific overdraft balances being presented on a gross basis. Further details are provided in Notes 17 and 20. 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.

(B) Cash conversion – Non-GAAP measure
The Group targets conversion of underlying profit before tax to free cash flow of at least 70%. 'Underlying' as a measure of operating profit is defined in Note 1(B)(ii). 'Free cash flow' is defined as the movement in available cash net of debt during the year before restricted cash, dividend payments, acquisitions and business disposal proceeds, net of pre-delivery payments for aircraft and acquisitions of shares for share-based payments. Calculations for the current and prior year are:

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Underlying operating profit	Consolidated income statement	**589**	490
Net financial expense	5	**(116)**	(100)
Underlying profit before tax		**473**	390
Movement in available cash net of debt	27(A)	**267**	77
Add:			
Dividends paid to ordinary and non-controlling interests	Consolidated statement of cash flows	**132**	128
Acquisition of subsidiaries net of cash acquired	Consolidated statement of cash flows	**10**	23
Investment in joint ventures, associates and other investments		**14**	25
Net pre-delivery payments for aircraft	11	**4**	53
Proceeds from other investments	Consolidated statement of cash flows	**–**	(1)
Free cash flow		**427**	305
Cash conversion		**90%**	78%

The 2012 figures have been restated to exclude:

i) contractually required net pre-delivery payments for aircraft; and
ii) restricted cash

from the movement in available cash as management considers this to be a better measure of performance in respect of free cash flows.

Investments in joint ventures, associates and other investments of £14m (2012: £25m) excludes the Group's investment of £27m (2012: £nil) into Blue Diamond Hotels and Resorts Inc, which was funded by way of a £28m (2012: £nil) dividend from Sunwing Travel Group Inc, a related party to Blue Diamond Hotels and Resorts Inc. As these transactions are considered to be linked, this investment has been excluded from the calculation of free cash flow. Further details of these transactions are included in Note 12.

Notes to the consolidated financial statements
continued

28. Operating lease commitments

Total Group obligations under non-cancellable operating lease contracts are payable as follows:

	Land and buildings 30 September 2013 £m	**Aircraft, ships, yachts and equipment 30 September 2013 £m**	Land and buildings 30 September 2012 £m	Aircraft, ships, yachts and equipment 30 September 2012 £m
Total commitments under non-cancellable operating leases expiring:				
Within one year	**265**	**383**	245	366
Between one and five years	**527**	**770**	496	725
Later than five years	**226**	**427**	209	201
Total	**1,018**	**1,580**	950	1,292

Operating lease commitments in respect of land and buildings comprise commitments in respect of the Group's retail estate, its hotel estate, including those commitments that are required to be disclosed as leases under IFRIC 4, and its office premises.

The future commitment under the Group's floating rate aircraft operating leases at 30 September 2013 was £80m (2012: £100m) and is included within the table above.

In total the Group operates 123 aircraft on operating leases at 30 September 2013 (2012: 129 aircraft), a minority of which contain purchase options. Yachts are held on operating leases in TUI Marine as part of the Group's Sunsail and The Moorings fleets, whilst cruise ships are held on operating leases in the UK & Ireland source market.

29. Capital commitments

The Group's capital commitments are as follows:

	30 September 2013 £m	30 September 2012 £m
Contracted but not provided for:		
Intangible assets	**3**	6
Total	**3**	6

In addition to the above items, at the year end the Group had contracted to purchase 79 (2012: 31) aircraft with initial deliveries to start in the first quarter of the financial year 2013/14. At list price, the total order value was US$9,772m (2012: US$4,067m) before discounts.

The Group intends to finance 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 the capital commitments of its joint ventures and associates at 30 September 2013 was £13m (2012: £nil).

30. 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. The Directors consider that adequate provision has been made for all known liabilities. See Note 8 for more details on contingent tax exposures and Note 22 for details on provisions.

31. Related party transactions

Apart from with its own subsidiaries which are included in the consolidated financial statements, the Group, in carrying out its ordinary business activities, maintained direct and indirect relationships with related parties including consolidated or related companies of its ultimate parent company, TUI AG. These companies either purchased or delivered services to companies in the Group.

Convertible bond

In April 2010, the Company issued a £400m fixed rate 4.9% convertible bond, of which Antium Finance Ltd, an independent special purpose company, subscribed for 50%. TUI AG entered into a forward purchase agreement with Antium Finance Ltd for these £200m convertible bonds, in order to prevent dilution of its majority shareholding. TUI AG is entitled to receive the interest coupon on these bonds and to repurchase these bonds by July 2014 at the latest.

Trademark Licence Agreement

The Trademark Licence Agreement incorporates trademark licences granted from TUI AG to members of the TUI Tourism Group in relation to TUI Tourism's use of the TUI name and logo and other trademarks from within TUI AG's portfolio of trademarks used in the former TUI Tourism's business. Licence fees payable under each licence are an annual fee equal to 0.02% of the average annual gross turnover of the relevant licensee under the relevant trademarks measured over a three year period. Total licence fees charged for the year ended 30 September 2013 were £3m (2012: £3m). Each licence's standard terms are for five years with an option for the relevant licensee to extend for a further five years on the same terms.

Hotel Framework Agreement

TUI Deutschland has signed an exclusivity agreement with TUI AG's Robinson hotel portfolio. Under the terms of the agreement, TUI Deutschland paid €8m in the financial year ended 30 September 2012, €10m in the financial year ending 30 September 2013 and must pay €12m per year thereafter. The contract also contains performance related elements linked to occupancy rates under which either more can be paid or refunds received.

Details of transactions with related parties during the year and balances outstanding at the balance sheet date are set out in the tables below:

	Income		Expenses (including interest)	
	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m
Related party				
Ultimate parent TUI AG	**8**	7	**4**	6
Hotel and resort subsidiaries of TUI AG	**1**	8	**289**	332
Other subsidiaries of TUI AG	**13**	4	**9**	2
Joint ventures and associates of TUI AG	**10**	13	**85**	73
Joint ventures of the Group	**41**	47	**132**	75
Associates of the Group	**15**	17	**14**	24
Total	**88**	96	**533**	512

Income earned from TUI AG includes airline revenue of £4m (2012: £3m) and recharges of administrative costs of £4m (2012: £3m).

Income earned from hotels and resort subsidiaries of TUI AG, joint ventures and associates of TUI AG and joint ventures of the Group includes accommodation and destination services provided by the Group to the related entities. The income relating to the Group's joint ventures includes £32m (2012: £35m) from Togebi Holdings Limited, the Group's joint venture in Russia, and its subsidiaries.

Income received from associates of the Group principally represents aircraft sublease income from Sunwing, as detailed in Note 7.

Expenses paid to TUI AG includes interest expense of £1m (2012: £2m). The remaining expenses paid to TUI AG of £3m (2012: £4m) relates to aircraft lease costs and licence fees.

In addition to the amounts disclosed above, £10m (2012: £10m) of the interest payable in the year in respect of the Group's convertible bonds has been paid to Antium Finance Ltd, a special purpose company which purchased £200m of the Group's 4.9% convertible bond. TUI AG remains entitled to receive the interest on these bonds from Antium Finance Ltd.

Expenses relating to hotels and resort subsidiaries of TUI AG, joint ventures and associates of TUI AG and joint ventures and associates of the Group relate to travel related services, primarily made up of accommodation and destination services costs.

Related party receivables

	30 September 2013			30 September 2012		
	Current assets £m	**Non-current assets £m**	**Total assets £m**	Current assets £m	Non-current assets £m	Total assets £m
Related party						
Ultimate parent TUI AG	**2**	**–**	**2**	–	–	–
Subsidiaries of TUI AG	**1**	**–**	**1**	11	–	11
Joint ventures and associates of TUI AG	**6**	**1**	**7**	5	–	5
Joint ventures of the Group	**43**	**35**	**78**	30	34	64
Associates of the Group	**3**	**–**	**3**	6	–	6
Total	**55**	**36**	**91**	52	34	86

Notes to the consolidated financial statements
continued

31. Related party transactions continued

Receivables due from related parties are reported in Note 16. Amounts owed from TUI AG and its subsidiaries of £3m (2012: £11m) are in respect of current trade and other receivables.

Amounts owed by joint ventures of the Group that are due after more than one year of £35m (2012: £34m) include a loan of US$12m, equating to £8m (2012: £7m) including interest from TUI Travel Holdings Limited, a direct subsidiary of the Company, to Togebi Holdings Limited. This loan is unsecured, bears interest at a rate of 7% and is repayable by February 2017. The remaining balance due after more than one year principally comprises hotel prepayments made to the Atlantica Leisure Group of companies.

Amounts owed by joint ventures that are due within one year of £43m (2012: £30m) include accommodation costs due from Togebi Holdings Limited and its subsidiaries of £15m (2012: £16m), which were non interest bearing balances. The remaining balance due within one year includes current hotel prepayments made to the Atlantica Leisure Group of companies.

Related party payables

	30 September 2013			30 September 2012		
	Current liabilities £m	**Non-current liabilities £m**	**Total liabilities £m**	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
Related party						
Ultimate parent TUI AG	**7**	**–**	**7**	8	–	8
Hotel and resort subsidiaries of TUI AG	**48**	**–**	**48**	45	–	45
Joint ventures and associates of TUI AG	**11**	**–**	**11**	19	–	19
Joint ventures of the Group	**26**	**1**	**27**	10	11	21
Associates of the Group	**5**	**–**	**5**	12	–	12
Total	**97**	**1**	**98**	94	11	105

Payables outstanding with related parties are reported in Notes 20, 21 and 23.

The above balances exclude £200m (nominal value) of the Group's convertible bonds 4.9% April 2017 which have been sold to Antium Finance Ltd. TUI AG is entitled to receive the interest coupon on these bonds and to repurchase these bonds by July 2014 at the latest. Further details of the convertible bonds are given in Note 20.

Amounts payable to hotels and resorts of TUI AG and joint ventures and associates of TUI AG are in respect of current trade payables primarily associated with accommodation and destination services costs.

Details on interest rate and liquidity risks in respect of balances with related parties are included in Notes 26(E) and 26(F) respectively.

Key management compensation

Details of Directors' remuneration are given in the Remuneration Report. In accordance with IAS 24, key management functions within the Group (the GMB and the Directors of the Company) were related parties whose remuneration has to be listed separately. The compensation paid in respect of key management personnel (including Directors) was as follows:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Short term employee benefits	**9**	9
Termination benefits	**–**	1
Post-employment benefits	**1**	1
Share-based payments	**10**	9
Total	**20**	20

Spanish tax case

In connection with the settlement of the tax dispute in Spain described in Note 8, on 5 August 2013 arrangements were entered into between the Company, one of its subsidiaries, TUI Travel Accommodation and Destinations S.L.U., and a former director of that subsidiary. That individual, a related party of the Company by virtue of their position as a key member of management, intends to plead guilty to a number of tax offences as part of the conclusion of the overall settlement. At that time, the subsidiary will have settled the outstanding balance of claimed tax, interest and penalties. The arrangements include agreement to indemnify the individual against, and not to seek future recovery of, the amounts payable, agreement to pay the individual's legal costs, and certain variations to the individual's terms of service. The indemnity and agreement regarding recovery from the individual in relation to the penalties was given as the Board considered these to be matters for the companies involved. In reaching the settlement in Spain and concluding these arrangements, the Board took account of the fact that when the transactions were executed, the law in Spain permitted the tax authorities to take action only against individuals and not companies. The Board considered this to be a corporate liability and not an individual liability, and therefore because the individual could have been any director of the relevant subsidiaries, the identity of the individual is not considered to be relevant. This legislation was changed in 2010.

For the purposes of related party transaction disclosure, the aggregate value ascribed to the arrangements with the individual, including the indemnity and waiver, is £16.7m, of which £13.1m is ascribed to the waiver (i.e. the €15m penalty referred to in Note 8), £0.1m represents legal costs paid and the balance is remuneration under the revised service contract payable in the ordinary course of their service over its anticipated life. Cash payments to the individual directly related to the settlement totalled approximately £0.1m for their legal costs.

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

32. Principal operating subsidiaries

Other than as stated below, all of the principal operating subsidiaries listed in the following table are wholly owned. Principal operating subsidiaries are those which, in the opinion of the Directors, significantly affected the Sector's results and net assets during the year. A full list will be included in the Company's next annual return to Companies House. The Directors consider that those companies not listed are not significant in relation to the Sector specified. TUI UK Limited is presented within the Mainstream Sector – UK & Ireland to reflect its principal operations but the Company also includes certain UK Specialist & Activity businesses at 30 September 2013.

Subsidiary	Country	Nature of business
Mainstream Sector		
Mainstream – UK & Ireland		
Falcon Leisure Group (Overseas) Limited	United Kingdom	Tour operator
Thomson Airways Limited	United Kingdom	Airline
TUI Travel Aviation Finance Limited	United Kingdom	Leasing company
TUI UK Limited	United Kingdom	Tour operator
TUI UK Retail Limited	United Kingdom	Travel agent
Mainstream – Germany		
Berge & Meer Touristik GmbH	Germany	Tour operator
L'TUR Tourismus AG (70%)	Germany	Tour operator
TUI Aviation GmbH	Germany	Leasing company
TUI Deutschland GmbH	Germany	Tour operator
TUI Leisure Travel GmbH	Germany	Travel agent
TUIfly GmbH	Germany	Airline
Mainstream – Nordics		
Fritidsresor AB	Sweden	Tour operator
Oy Finnmatkat AB	Finland	Tour operator
Star Tour A/S	Denmark	Tour operator
Startour-Stjernereiser AS	Norway	Tour operator
TUIfly Nordic AB	Sweden	Airline
Mainstream – France		
Corsair SA	France	Airline
TUI France SAS*	France	Tour operator
Mainstream – Other		
JetAir NV	Belgium	Tour operator
TT Hotels Turkey Otel Hizmetleri Turizm Ve Ticaret Anonim Sirketi	Turkey	Hotel operator
TUI (Suisse) AG	Switzerland	Tour operator
TUI Airlines Belgium NV	Belgium	Airline
TUI Airlines Nederland BV	Netherlands	Airline
TUI Austria Holding GmbH	Austria	Tour operator
TUI Nederland NV	Netherlands	Tour operator
TUI Poland Sp Zoo	Poland	Tour operator
Accommodation & Destinations Sector		
Lima Tours S.A.C.	Peru	Tour operator
Asiarooms Pte Ltd	Singapore	Online travel agent
Beds On Line SLU	Spain	Accommodation wholesaler
Blue Travel Partner Services SA (99%)	Dominican Republic	Inbound services
Club Turavia SA de CV	Mexico	Accommodation wholesaler
Hotelbeds Dominicana SA	Dominican Republic	Accommodation wholesaler
Hotelbeds Product, SLU	Spain	Accommodation wholesaler
Hotelbeds, SLU	Spain	Accommodation wholesaler
Hotelbeds Spain, SLU	Spain	Accommodation wholesaler
Hotelbeds UK Limited	United Kingdom	Accommodation wholesaler
Hotelbeds USA, Inc.	USA	Accommodation wholesaler
Intercruises Shoreside & Port Services, Inc.	USA	Inbound services
Intercruises Shoreside & Port Services, SLU	Spain	Inbound services
Late Rooms Limited	United Kingdom	Online travel agent
Pacific World Singapore Pte Limited	Singapore	Inbound services
Transfar-Agencia de Viagens e Turismo Unipessoal LDA	Portugal	Inbound services
TUI Hellas Travel Tourism and Airlines AE	Greece	Inbound services
TUI Portugal-Agencia de Viagens e Turismo SA	Portugal	Inbound services
TUI España Turismo SA	Spain	Inbound services
Ultramar Express Transport SA	Spain	Inbound services

Notes to the consolidated financial statements
continued

32. Principal operating subsidiaries continued

Subsidiary	Country	Nature of business
Specialist & Activity Sector		
Crown Blue Line Limited	United Kingdom	Tour operator
Crown Travel Limited	United Kingdom	Tour operator
ELC English Limited	United Kingdom	Language teaching
Exodus Travels Limited (60%)	United Kingdom	Tour operator
Fanfirm Pty Limited*	Australia	Tour operator
First Choice Sailing, Inc.	USA	Tour operator
Gullivers Sports Travel Limited	United Kingdom	Tour operator
Hayes & Jarvis (Travel) Limited	United Kingdom	Tour operator
Headwater Holidays Limited (60%)	United Kingdom	Tour operator
Intrepid Travel Pty Ltd (60%)	Australia	Tour operator
Mariner International Travel, Inc.	USA	Tour operator
Peregrine Adventures Pty Ltd (60%)	Australia	Tour operator
Porter and Haylett Limited	United Kingdom	Boat owning company
Quark Expeditions, Inc.	USA	Tour operator
Ski Bound Limited	United Kingdom	Tour operator
Specialist Holidays (Travel) Limited	United Kingdom	Tour operator
Sunsail Limited	United Kingdom	Tour operator
Sunsail Worldwide Sailing Limited	United Kingdom	Tour operator
TCS and Starquest Expeditions, Inc.	USA	Tour operator
The Moorings Limited	British Virgin Islands	Tour operator
Thomson Sport (UK) Limited*	United Kingdom	Tour operator
Travcoa Corporation	USA	Tour operator
Travel Class Limited	United Kingdom	Tour operator
Travel Turf, Inc.	USA	Tour operator
Travelmood Limited	United Kingdom	Tour operator
Trek America Travel Limited (60%)	United Kingdom	Tour operator
TTSS Limited	United Kingdom	Tour operator
Williment Travel Group Limited	New Zealand	Tour operator
World Challenge Expeditions Limited	United Kingdom	Tour operator
World Challenge Expeditions Pty Limited	Australia	Tour operator
Your Man Tours, Inc.	USA	Tour operator
Zegrahm Expeditions, Inc.	USA	Tour operator

* All subsidiaries except those marked with an asterisk are held indirectly by the Company.

In addition to the ownership of 100% of the ordinary shares of the above listed principal operating subsidiaries, the Group also owns the following shares in these companies:

Principal operating subsidiary	Additional classes of shares
Ski Bound Limited	167,502 £1 'A' ordinary shares
Club Turavia SA de CV	2,317,133 MXP1 variable shares

33. Earnings per share

The basic 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 year, excluding those held in the Employee Benefit Trust. The diluted earnings per share is calculated on the result attributable to ordinary shareholders divided by the adjusted potential weighted average number of ordinary shares, which takes account of the outstanding share awards and the impact of the conversion of the convertible bonds, where their conversion is dilutive. The additional underlying earnings per share measures have been presented to provide the reader of the accounts with a better understanding of the results.

Basic and diluted earnings per share are as follows:

	Earnings 2013 £m	**Weighted average no. of shares 2013 Millions**	**Earnings per share 2013 Pence**	Earnings 2012 £m	Weighted average no. of shares 2012 Millions	Earnings per share 2012 Pence
Basic earnings per share	**60**	**1,110**	**5.4**	138	1,108	12.5
Effect of dilutive options	**–**	**8**		–	10	
Diluted earnings per share	**60**	**1,118**	**5.4**	138	1,118	12.3

For the statutory measure of diluted earnings per share, the effects of including the convertible bonds are anti-dilutive in both years and therefore this is not included within the calculation.

Alternative measures of earnings per share

	Earnings 2013 £m	**Weighted average no. of shares 2013 Millions**	**Earnings per share 2013 Pence**	Earnings 2012 £m	Weighted average no. of shares 2012 Millions	Earnings per share 2012 Pence
Basic earnings per share	**60**	**1,110**	**5.4**	138	1,108	12.5
Acquisition related expenses and impairments	**253**	**–**		92	–	
Separately disclosed items	**24**	**–**		92	–	
Tax base difference	**5**	**–**		(36)	–	
Basic underlying earnings per share	**342**	**1,110**	**30.8**	286	1,108	25.8
Effect of dilutive options	**–**	**8**		–	10	
Effect of convertible bond (net of tax)	**49**	**205**		47	205	
Diluted underlying earnings per share	**391**	**1,323**	**29.6**	333	1,323	25.2

The tax base difference primarily represents the difference between the actual charge in the consolidated income statement (including tax on the profits of joint ventures and associates) and the Group's underlying tax charge, as disclosed below. The dilutive effect of the convertible bonds is included solely to calculate diluted underlying earnings per share.

Reconciliation of profit for the year from continuing operations attributable to ordinary shareholders from continuing operations

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Profit attributable to ordinary shareholders from continuing operations	**60**	138
Result attributable to non-controlling interests from continuing operations	**3**	(1)
Profit for the year from continuing operations	**63**	137

Non-GAAP measure

Reconciliation of underlying operating profit to underlying earnings

	Note	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m
Underlying operating profit		**589**	490
Net underlying financial expenses	5	**(116)**	(100)
Underlying profit before tax		**473**	390
Underlying tax charge at 27% (2012: 27%)		**(128)**	(105)
Underlying profit for the year		**345**	285
Attributable to ordinary shareholders		**342**	286
Attributable to non-controlling interests		**3**	(1)
Underlying profit for the year		**345**	285

Notes to the consolidated financial statements
continued

34. Capital management

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the Parent Company. The Board's policy has been to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. This includes maintaining the level of dividends at a level commensurate with underlying operating profitability of the Group and obtaining sufficient long and short term debt facilities that are appropriate for the seasonality of the business.

The Group has a roadmap to deliver sustainable long term value to shareholders with a return on invested capital (ROIC) greater than the Group's post-tax weighted average cost of capital. Progress in achieving this objective has been made during this year by improving underlying operating profit, which increases ROIC to 14.8% (2012: 12.2%).

The Group is required to comply with external banking credit facility covenants, with compliance being tested twice a year. The Group has complied with these covenants throughout the year and up to the date of signing these financial statements. Further information on these covenants is provided in Note 1(B)(v).

ROIC is defined as 'Underlying NOPAT'/'Average Invested Capital'. Underlying NOPAT is underlying net operating profit after tax charged at the effective annual rate. 'Underlying' as a measure of operating profit is defined in Note 1(B)(ii). As such, ROIC is considered to be a non-GAAP measure of performance. Average Invested Capital comprises an average of the net assets (at the start and end of the year) of the Group, adjusted to add back net debt, cumulative goodwill impairment charges and defined benefit pension scheme net deficits. There is also an adjustment to net debt to reflect a seasonal average cash balance. Calculations for the current and prior years are:

Return on invested capital	Note	**Year ended 30 September 2013 £m**	Year ended 30 September 2012 £m
Underlying operating profit	Consolidated income statement	**589**	490
Taxation at the underlying effective rate of 27% (2012: 27%)		**(159)**	(132)
Underlying NOPAT		**430**	358
Net assets	Consolidated balance sheet	**1,491**	1,609
Net debt	27(A)	**–**	108
Seasonal net debt adjustment		**320**	400
Cumulative goodwill impairment charge		**378**	190
Defined benefit pension net deficit	6(C)	**661**	648
Invested Capital		**2,850**	2,955
Average Invested Capital		**2,903**	2,936
ROIC		**14.8%**	12.2%

The Board seeks to maintain a balance between the levels of debt borrowings undertaken and the advantages and security afforded by a sound capital position. An analysis of net cash/debt at the year end is in Note 27(A).

Certain subsidiaries have external capital requirements as a result of applicable travel industry regulations in their jurisdictions. Compliance with these regulations is mandatory for the relevant operating businesses in those countries in order that they are able to continue trading. Key countries with such mandatory capital requirements are France, Belgium, the Netherlands, Germany and Australia. The capital requirements in these countries stipulate maintaining minimum equity/net asset levels in operating subsidiaries. All such capital requirements were complied with as at 30 September 2013. None of these requirements place any significant restriction on the Group's funding or operations.

35. Post balance sheet events

On 19 November 2013, the Group announced that it had agreed to sell 87.4% of its interest in The Airline Group Limited, a shareholder in UK Air Traffic controller NATS Holdings Limited, for cash consideration of approximately £38 million. The transaction is expected to complete during the first quarter of calendar year 2014 subject to clearance from the European Commission. Also on 19 November 2013, the Group announced that it had completed an order for two additional Boeing 787-8 Dreamliner aircraft from The Boeing Company (Boeing) at a significant discount to the list price as a result of various concessions, allowances and support from Boeing. At current list prices, the value of two Boeing 787-8 Dreamliner aircraft is $422 million (£264 million).

36. Ultimate parent company

The ultimate parent company is considered to be TUI AG, a company registered in Berlin and Hanover (Federal Republic of Germany). At 30 September 2013, TUI AG was the beneficial owner of 54.48% of the ordinary share capital of the Company.

In addition, a number of bonds are held indirectly by TUI AG and, if converted, would give rise to 52,309,463 of new shares. On a fully diluted basis, if all bonds were converted, TUI AG's shareholding would be 50% at 30 September 2013.

TUI AG prepares consolidated financial statements which include the results of the Group. TUI AG is the parent undertaking of the smallest and largest group to consolidate these financial statements. The accounting reference date of TUI AG is 30 September. Copies of the TUI AG financial statements are publicly available and can be obtained from the registered office of TUI AG situated at Karl-Wiechert-Allee 4, 30625 Hanover, Federal Republic of Germany.

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

Independent Auditors' report to the members of TUI Travel PLC

Report on the Parent Company financial statements

Our opinion

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 30 September 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say below.

What we have audited

The Parent Company financial statements, which are prepared by TUI Travel PLC, comprise:

- the Parent Company balance sheet as at 30 September 2013;
- the notes to the Parent Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgments, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report & Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Parent Company financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinions on matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.
- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Parent Company financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 102, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other matter

We have reported separately on the Group financial statements of TUI Travel PLC for the year ended 30 September 2013.

Roger de Peyrecave (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 December 2013

Company balance sheet

for the year ended 30 September 2013

	Note	30 September 2013 £m	30 September 2012 £m
Fixed assets			
Investments	D	**1,261**	1,255
Current assets			
Debtors: amounts falling due after more than one year	E	**44**	–
Debtors: amounts falling due within one year	F	**183**	156
Cash at bank		**257**	250
		484	406
Creditors: amounts falling due within one year	G	**(129)**	(197)
Net current assets		**355**	209
Total assets less current liabilities		**1,616**	1,464
Creditors: amounts falling due after more than one year	H	**(973)**	(950)
Provision for liabilities	I	**(5)**	(18)
Net assets		**638**	496
Capital and reserves			
Called up share capital	J	**112**	112
Profit and loss account	K	**406**	263
Convertible bond reserve	K	**91**	88
Other reserves	K	**29**	33
Total shareholders' funds	K	**638**	496

The financial statements on pages 176 to 181 were approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and were signed on its behalf by:

Peter J Long
Chief Executive

William H Waggott
Chief Financial Officer

Company number: 6072876

The notes on pages 177 to 181 form part of these financial statements.

Notes to the Company's financial statements

A. Accounting policies

Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. The Company's financial statements are presented in the Company's presentational currency of Sterling, rounded to the nearest million.

Accounting convention

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable UK accounting standards and under the historical cost convention as modified for derivative financial instruments and convertible bonds. The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account. The profit after tax included in the financial statements of the Company determined in accordance with the Act, was £270m (2012: £114m).

Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Sterling at foreign exchange rates ruling at the dates the fair values were determined.

Investments

Investments in subsidiaries are stated at cost less provision for impairment. Dividends received and receivable are credited to the Company's profit and loss account on the date of receipt.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Classification of financial instruments issued

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions. The first condition is that they include no contractual obligation upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company. The second condition is that where the instrument will, or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments, or is a derivative that will be settled by the Company, exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Convertible bonds

The convertible bonds are split into two components: a debt component and a component representing the embedded derivatives in the bond. The debt component represents the Group's liability for future interest coupon payments and the redemption amount. The embedded derivatives represent the value of the option that bondholders have to convert into ordinary shares of the Company. These derivatives were valued on inception and recognised in the convertible bond reserve in equity.

The debt component of the convertible bonds is measured at amortised cost and therefore increases as the present value of the interest coupon payments and redemption amount increases, with a corresponding charge to finance cost. The debt component decreases by the cash interest coupon payments made. The embedded derivatives are measured at fair value at each balance sheet date and changes in fair value are recognised in the income statement.

Issue costs are apportioned between the liability and derivative components of the related convertible bond based on the allocation of proceeds to the liability and derivative components when the instruments are first recognised.

Share-based payments

The Company operates share-based payment schemes for the employees of the Company and its subsidiaries. The fair value of shares awarded to employees is an employee expense and is borne by fellow Group subsidiaries. The fair value is measured at the award date and is spread over the period during which the employee becomes unconditionally entitled to the awards. Calculating the fair value takes into account various factors including the expected volatility of the shares, the dividend yield and the risk free interest rate.

The Company makes awards of its own shares to the employees of its subsidiaries and as such recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity. The increase in investments and credit to equity for the year ended 30 September 2013 is £15m (2012: £11m). Further information on the share schemes is provided in Note 6(D) to the consolidated financial statements.

Any transactions of the Company's Employee Benefit Trust are included in the Company's financial statements. In particular, the Trust's purchases and sales of shares in the Company are debited and credited directly to equity.

Related parties

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or entities. The Company has taken advantage of the exemption contained within FRS 8 and has not therefore disclosed transactions or balances with entities which are wholly-owned subsidiaries.

Notes to the Company's financial statements
continued

Taxation
The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Timing differences arise when items of income and expenditure are included in tax computations in periods different from their inclusion in the financial statements.

Dividends on shares presented within shareholders' funds
Dividends distributed to the Company's shareholders are recognised as a liability and deducted from equity in the Company's financial statements in the period in which the dividends are appropriately authorised and approved for payment and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Auditors' remuneration
The Company's 2013 audit fee was £26,000 (2012: £25,000).

B. Directors' remuneration and employees

Details of Directors' remuneration, gains made by them on vesting of share awards, amounts receivable by them under long term incentive schemes and pension entitlements in the current and prior years are contained in the audited section of the Directors' Remuneration Report and in Note 6 of the consolidated financial statements. Details of all share awards issued by the Company are given in Note 6(D) of the consolidated financial statements. All Directors' remuneration is borne by subsidiary companies.

C. Dividends

Details of dividends paid and proposed by the Company in the current and prior year and details of dividends proposed subsequent to the balance sheet date are given in Note 9 of the consolidated financial statements.

D. Investments

	Shares in subsidiaries £m
Cost	
At 1 October 2012	1,589
Additions	145
Disposals	(5)
At 30 September 2013	**1,729**
Provision for impairment	
At 1 October 2012	(334)
Impairment	(139)
Disposals	5
At 30 September 2013	**(468)**
Net book value	
At 30 September 2012	1,255
At 30 September 2013	**1,261**

Additions in the year of £145m comprise the following increases in investments: £88m increase in the cost of investment into TUI France SAS during the year, for the purposes of recapitalising the Group's French business, £42m increase in the cost of investment into TUI Travel Overseas Holdings Limited and £15m of share-based payment liabilities incurred. The costs of the share-based schemes, which are operated for employees of the Company's subsidiaries, are borne by the subsidiaries, subject to local accounting standards. The Company recognises an increase in the investment in the subsidiary and a credit to other reserves in accordance with FRS 20 'Share-based payments'.

Details of the principal operating subsidiaries held directly and indirectly by the Company in the year ended 30 September 2013 can be found in Note 32 of the consolidated financial statements.

Included within the total impairment charge of £139m is a £6m impairment charge of the investment in Real Travel Limited due to the fall in value of this company as the demand for gap year travel has decreased over the last year and the future outlook for this business is considered to be less profitable than previously expected. An impairment of £133m (2012: £300m) has been charged in the year in respect of the cost of investment into TUI France SAS, following the recapitalisation during the year and the outcome from the Group's annual impairment exercise.

The investment into TUI France SAS principally relates to two CGUs that are the same as those used in the Group's annual impairment test. These two CGUs are the French tour operator and the French airline, Corsair. Detailed disclosure of the impairment test and the basis for calculation have been set out in Note 10 of the consolidated financial statements. The cost of investment has been compared against the value in use of Corsair and the French tour operator, using discounted cash flows as a basis of measurement.

The calculation of recoverable value for these two CGUs uses the following assumptions:

- Cash flow projections based on the Group's latest Board approved three year business plan which management has extended by two years to create a five year plan;
- Cash flows beyond the plan period are extrapolated using a real growth rate of 1.75% (2012: 1.8%);
- Cash flows include the impact of working capital in both the asset base and the impact on cash flows over the plan period; and
- Cash flows are discounted using the Group's WACC adjusted as appropriate for business specific factors, such as business risk. The risk-adjusted pre-tax WACC for these two CGUs was 10% (2012: 11%).

The calculation of recoverable value for Real Travel Limited uses the same assumptions as above, except that the cash flows beyond the plan period are extrapolated using a real growth rate of 2.2%.

E. Debtors: amounts falling due after more than one year

	30 September 2013 £m	30 September 2012 £m
Amounts owed by Group undertakings	**44**	–

Amounts owed by Group undertakings at 30 September 2013 are unsecured, bear no interest and are due for repayment on 22 May 2018.

F. Debtors: amounts falling due within one year

	30 September 2013 £m	30 September 2012 £m
Amounts owed by Group undertakings	**58**	50
Corporation tax recoverable	**118**	98
Prepayments	**7**	8
Total	**183**	156

Amounts owed by Group undertakings at 30 September 2013 are unsecured and comprise £8m (2012: £6m) that bears interest at Lloyds Bank five year swap rate plus a margin of 2.25% and has no fixed date of repayment and £50m (2012: £44m) that bears no interest and is repayable on demand.

G. Creditors: amounts falling due within one year

	30 September 2013 £m	30 September 2012 £m
Bank loans	**2**	1
Deferred and contingent consideration	**–**	1
Amounts owed to Group undertakings	**109**	176
Accruals and deferred income	**18**	19
Total	**129**	197

Amounts owed to Group undertakings include £28m (2012: £28m) that bears interest at the three month sterling LIBOR rate plus 185 basis points and is repayable on demand, subject to the borrower or the lender giving seven days' notice. All other amounts owed to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

H. Creditors: amounts falling due after more than one year

	30 September 2013 £m	30 September 2012 £m
Convertible bonds	**697**	675
Bank loans	**6**	5
Amounts owed to Group undertakings	**270**	270
Total	**973**	950

Details of the convertible bonds are given in Note 20 of the consolidated financial statements. The accounting under UK GAAP and IFRS is the same.

Amounts owed to Group undertakings comprise a loan of £269m (2012: £269m) and interest payable of £1m (2012: £1m). The loan bears interest at LIBOR plus a margin of 5% per annum, is unsecured and is repayable by 31 March 2026.

I. Provision for liabilities

	£m
Deferred tax	
Other timing differences	5
Total provision for liabilities	**5**
At 1 October 2012	18
Deferred tax credit to profit and loss account	(10)
Deferred tax credit to equity	(3)
At 30 September 2013	**5**

Other timing differences comprise deferred tax on share-based payments and the equity portion of the convertible bonds.

Notes to the Company's financial statements
continued

J. Called up share capital

	30 September 2013 £m	30 September 2012 £m
Issued and fully paid		
1,118,010,670 (2012: 1,118,010,670) ordinary shares of 10p each	**112**	112
Total	**112**	112

As described more fully in Note 36, the ultimate parent company, TUI AG, is the beneficial owner of 54.48% (2012: 56.26%) of the Company's issued ordinary share capital as at 30 September 2013.

At 30 September 2013, 8,047,575 shares (2012: 9,545,951 shares) were held by the Group's Employee Benefit Trust. Based on the 30 September 2013 share price of £3.68 (2012: £2.34) the value of shares held was £29,615,076 (2012: £22,336,683).

Details of dividends debited to equity in the year are set out in Note 9 of the consolidated financial statements. Whilst the Company has the authority to purchase its own shares, it has not done so in either the current or prior years.

K. Capital and reserves

	Called up share capital £m	Profit and loss account £m	Convertible bond reserve £m	Other reserves £m	Total shareholders' funds £m
At 1 October 2011	112	277	85	26	500
Disposal on award of shares	–	(9)	–	4	(5)
Share-based payment costs (net of deferred tax)	–	–	–	11	11
Transfer from share-based payment reserve to retained earnings		8	–	(8)	–
Profit for the financial year	–	114	–	–	114
Foreign exchange on net investment hedge	–	(2)	–	–	(2)
Effect of rate change on convertible bond	–	–	3	–	3
Dividends paid	–	(125)	–	–	(125)
At 30 September 2012	**112**	**263**	**88**	**33**	**496**
Disposal on award of shares	**–**	**3**	**–**	**(19)**	**(16)**
Share-based payment costs (net of deferred tax)	**–**	**–**	**–**	**15**	**15**
Profit for the financial year	**–**	**270**	**–**	**–**	**270**
Effect of rate change on convertible bond	**–**	**–**	**3**	**–**	**3**
Dividends paid	**–**	**(130)**	**–**	**–**	**(130)**
At 30 September 2013	**112**	**406**	**91**	**29**	**638**

STRATEGIC REPORT
BUSINESS AND FINANCIAL REVIEW
DIRECTORS' REPORT
FINANCIAL STATEMENTS
SHAREHOLDER INFORMATION

L. Contingent liabilities

There were contingent liabilities at 30 September 2013 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. These guarantees cover payables by the Company's subsidiaries for items such as insurance and credit facilities, car leases, aviation fuel, ground handling and airport services. The Company has also guaranteed the contractual obligations of various subsidiary companies in respect of the supply of a number of the Group's aircraft fleet. No material losses are currently expected to be incurred by the Company from such contingent liabilities.

Where the Company enters into financial guarantee contracts in order to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. At 30 September 2013, the Company had contingent liabilities in respect of counter-guarantees for letters of credit amounting to £136m (2012: £162m).

The Company is an obligor to the Group's revolving credit facilities totalling £1,120m, details of which are set out in Note 26(F). At 30 September 2013, the drawndown portion of this facility was £nil (2012: £nil).

Under the terms of guarantees given to the Civil Aviation Authority and other relevant authorities by the Company in respect of certain subsidiaries, in the event of default the Company could be held liable to the extent of the subsidiaries' net trading liabilities at the time of default.

No amount is recognised in the Company's balance sheet in respect of any of the above guarantees as it is not probable that there will be an outflow of resources.

The Company may be required to recapitalise direct subsidiaries in certain countries where there is a legal requirement to do so in the event that the net assets or reserves fall below a determined level. Where recapitalisation is required, the recapitalisation will be accounted for as an increase in the cost of investment in that subsidiary, and subsequently tested for impairment (see Note D).

The Company, and its subsidiaries, 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. The Directors consider that adequate provision has been made for all known liabilities.

The Company has provided certain wholly owned UK subsidiaries with guarantees such that they can take an exemption from the requirement to have their single entity financial statements audited. These guarantees cover all outstanding liabilities of the following subsidiaries as at 30 September 2013: EAC Activity Camps Limited, iExplore Limited, Manchester Academy Holdings Limited, Manchester Academy Teacher Training (UK) Limited, Student Skiing Limited, Travel Class Transport Limited and World Challenge Holdings Limited.

M. Related party transactions

Apart from with its own subsidiaries which are included in the consolidated financial statements, TUI Travel PLC, in carrying out its ordinary business activities, had transactions with its ultimate parent company, TUI AG, which delivered services to companies in the Group. Expenses and interest payable to TUI AG amounted to £nil in the year (2012: £2m).

In addition to the above, Antium Finance Ltd purchased £200m (nominal value) of the Company's convertible bond 4.9% April 2017. Antium Finance Ltd is a special purpose entity, independent of TUI AG. TUI AG entered into a forward purchase agreement with Antium Finance Ltd for these £200m convertible bonds, in order to prevent dilution of its majority shareholding. TUI AG is entitled to receive the interest coupon on these bonds from Antium Finance Ltd (amounting to £10m per annum) and to repurchase these bonds by July 2014 at the latest. Further details of the convertible bonds are given in Notes 20 and 31 of the consolidated financial statements.

N. Post balance sheet events

Details of post balance sheet events relevant to the Group are given in Note 35 of the consolidated financial statements.

Shareholder information

Financial calendar

Annual General Meeting	6 February 2014
Interim results	May 2014
Preliminary results	December 2014

Contacts and advisers

Secretary and Registered Office
J Walter
TUI Travel House
Crawley Business Quarter
Fleming Way
Crawley
West Sussex RH10 9QL
Telephone: 01293 645700
Facsimile: 01293 645704

Registered number 6072876

Independent Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Financial adviser
Lazard

Stockbrokers
Barclays
Bank of America Merrill Lynch

Solicitors
Herbert Smith Freehills

Registrars and transfer office
Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA
Shareholder Contact Centre No:
Telephone: 0871 384 2030
International: +44 (0) 121 415 7047
Website: www.shareview.co.uk

Company website
www.tuitravelplc.com

Glossary of key terms

A&D
Accommodation & Destinations Sector

AGM
Annual General Meeting

APAC
Asia Pacific region

ASP
Average selling price

Asset-right
Optimum mix of owned and leased assets

B2B
Business-to-Business

B2C
Business-to-Consumer

bn
Billion

CAGR
Compound annual growth rate

CIS
Commonwealth of Independent States

CO_2/RPK
Carbon dioxide emissions per revenue passenger kilometre

Controlled distribution
Owned and franchised retail shops, call centre and website

COSO
The Committee of Sponsoring Organizations of the Treadway Commission

DABS
Deferred Annual Bonus Scheme

Direct distribution
Retail, call centre and website

EPS
Earnings per share

ETS
European Emissions Trading Scheme

GDP
Gross Domestic Product

GMB
Group Management Board

IFRS
International Financial Reporting Standards

JV
Joint venture

KPIs
Key performance indicators

LCCs
Low cost carriers

Load factor
Passenger volumes as a percentage of capacity

m
Million

Merger
The business combination of the Tourism Division of TUI AG (excluding certain hotel assets) and First Choice Holidays PLC

OTA
Online travel agent

PSP
Performance Share Plan

PwC
PricewaterhouseCoopers LLP

ROIC
Return on invested capital

RPI
Retail Price Index

SAS
Specialist & Activity Sector

Sector
Subset of TUI Travel PLC whose businesses share similar characteristics

Summer season
May to October

The Board
TUI Travel PLC Board of Directors

The Company
TUI Travel PLC

The Group
The TUI Travel PLC group of companies

TSR
Total Shareholder Return

TTV
Total transaction value

TUI AG
TUI Travel PLC's majority shareholder

Unique holidays
Includes hotels and products that have been tailored to offer additional services and facilities to our customers

UNWTO
United Nations World Travel Organisation

VCSP
Value Creation Synergy Plan

WACC
Weighted average cost of capital

Winter season
November to April

Shareholder discount

Eligible shareholders are entitled to the following discounts (which are subject to change) when booking holidays through our dedicated Shareholder Discount Line. The shareholder must be the lead name on the booking.

Best price on the dedicated website plus a further discount of £20 per adult to a maximum of £40 per booking (cruise, short/medium-haul destinations) or £40 per adult to a maximum of £80 per booking (long-haul destinations) for the following:

*First Choice	www.firstchoice.co.uk
*Thomson	www.thomson.co.uk
*Thomson Worldwide	www.thomsonworldwide.com
*Citalia	www.citalia.com
*Jetsave	www.jetsave.co.uk
*Meon Villas	www.meonvillas.com
*Sovereign	www.sovereign.com
*Hayes & Jarvis	www.hayesandjarvis.co.uk
**Thomson Lakes & Mountains	www.thomsonlakes.co.uk
**Thomson Ski & Snowboarding	www.thomsonski.co.uk
**Crystal Ski	www.crystalski.co.uk
**Crystal Summer	www.crystalsummer.co.uk

Thomson Airways
Best price on the www.thomson.co.uk website plus a further discount of £10 per person for a return journey (short/medium-haul destinations) or £20 per person for a return journey (long-haul destinations).

Hotelopia
Best price on all hotels on the www.hotelopia.co.uk website plus an additional 14% discount.

***Trek America**
Best price on the website www.trekamerica.com plus an additional 10% discount.

***Grand American**
Adventures Best price on the website www.grandamericanadventures.com plus an additional 10% discount.

***The Moorings**
Best price on the www.moorings.com website plus a further discount of £20 per adult to a maximum of £40 per booking (short-haul destinations) or £40 per adult to a maximum of £80 per booking (long-haul destinations).

***Sunsail**
Best price on the www.sunsail.co.uk website plus a further discount of £20 per adult to a maximum of £40 per booking (short-haul destinations) or £40 per adult to a maximum of £80 per booking (long-haul destinations).

***Le Boat**
Best price on the www.leboat.co.uk website plus a further discount of £20 per adult to a maximum of £40 per booking on all destinations.

***Real Gap**
Best price on the www.realgap.co.uk website plus a further discount of 10%.

***i-to-i volunteering**
Best price on the www.i-to-i.com website plus a further discount of 10%.

Exodus
Best land only price on the www.exodus.co.uk website plus a further 5% discount per adult.

Quark Expeditions
Best land only price on the www.quarkexpeditions.com website plus a further 5% discount per adult.

***SkiBound**
Best price on the www.skiboundholidays.co.uk website plus a further discount of £20 per adult to a maximum of £40 per booking on all our French club hotel destinations.

* Discounts are not valid on accommodation-only bookings and cannot be used in conjunction with any discretionary discounts, group savings or other promotional offers.

**Discounts are not valid on accommodation or flight-only bookings and cannot be used in conjunction with other promotional offers including but not restricted to group discounts. Valid on charter flights to European destinations only.

In order to qualify for the discount, private shareholders (including those holding through a nominee account) must hold at least 500 ordinary shares in the Company on the date of booking the holiday and must have been on the register of shareholders for a minimum period of one year on that date.

To make a booking call us on: 0844 800 3104 (Monday, Wednesday and Friday 0900-1800hrs, Tuesday 1000-1800 hrs and Saturday 0900-12.30hrs).

Share dealing service
An execution-only share-dealing service for the purchase and sale of TUI Travel PLC shares is available from Equiniti. Equiniti is authorised and regulated by the Financial Services Authority and is a member of the London Stock Exchange and PLUS.

For details, please contact:

Equiniti Share Dealing Service
Suite 1/1
3 Minster Court
Mincing Lane
London EC3R 7DD

Telephone: 0808 208 4433

Find out more
TUI Travel PLC has a corporate website which can be accessed through www.tuitravelplc.com

Index

A
Accommodation & Destinations Sector 12, 61
Accounting Policies 112, 177
Acquisitions 55, 147
Annual General Meeting 101
Audit Committee 73
Auditors 101

B
Balance sheet 109, 176
Board Committees 68
Board of Directors 66
Brands 6
Business and financial review 54
Business models 15

C
Chairman's statement 8
Chief Executive's statement 9
Company balance sheet 176
Consolidated balance sheet 109
Consolidated income statement 107
Consolidated statement of cash flows 111
Consolidated statement of changes in equity 110
Consolidated statement of comprehensive income 108
Contacts and advisers 182
Corporate Governance report 68
Current trading 63

D
Directors' biographies 66
Directors' remuneration 79
Directors' report 66
Directors' responsibilities 102
Dividends 56, 139

E
Earnings Per Share 56, 173
Emerging Markets Sector 61

F
Financial calendar 182
Financial highlights ifc
Financial statements 103

G
Governance 68
Group Management Board 34
Group overview 4
Group performance 54
Growth levers 4, 57

H
Health & Safety 52

I
Independent Auditors' Report 104, 175
Investment case 4

K
Key Performance Indicators 38

M
Mainstream Sector 12, 59
Market overview 10

N
Nomination Committee 78
Notes to the consolidated financial statements 112

O
Operational highlights ifc
Outlook 63

P
Pensions 128
People 34
Principal operating subsidiaries 171
Principal risks 42

R
Remuneration Committee 68
Remuneration Report 79

S
Segmental performance 59
Separately disclosed items 55, 126
Shareholder discount 183
Specialist & Activity Sector 12, 62
Strategic drivers 15 to 25
Strategic overview 5, 14, 15
Strategy 14 to 25
Sustainable development 26

T
Tax 64, 138, 149
Total Shareholder Return 96
TUI Travel at a glance 4

W
Where we operate 2
Who we are 1

Designed by Boone Design.
Produced by Magenta Digital.

Printed in the UK by Pureprint Group on Amadeus Primo Silk FSC® certified paper.

Amadeus Primo Silk is certified FSC and is made using ECF pulp, is manufactured according to ISO 9001 and ISO 14001.

100% of the inks used are vegetable oil based, 95% of press chemicals are recycled for further use and, on average, 99% of any waste associated with this production will be recycled.

Photography supplied by TUI Travel PLC businesses.

TUI TRAVEL PLC

TUI Travel House
Crawley Business Quarter
Fleming Way
Crawley
West Sussex
RH10 9QL

Telephone: 0044 (0)1293 645700

www.tuitravelplc.com