



ANNUAL REPORT & ACCOUNTS
FOR THE YEAR ENDED 30 SEPTEMBER 2014



Operational & financial highlights

- **Growth roadmap exceeded: 11% increase in underlying operating profit at constant currency²**
 - > Underlying operating profit increased by 11% to £654m on a constant currency basis². Underlying operating profit increased to £612m (2013: £589m).
 - > Significant increase in statutory operating profit to £499m (2013: £297m), reflecting improvement in underlying operating profit, lower impairment charges and lower separately disclosed items.
- **Mainstream strategy continues to deliver sustainable, profitable growth**
 - > Mainstream underlying operating profit up 13% on a constant currency basis² to £581m (2013: £514m). Driven by strong performances in the UK, Germany and Netherlands and a halving of French tour operator losses.
 - > Underlying operating profit margin increase of 40bp in the UK (6.9%) and 30bp in Germany (3%), on a constant currency basis².
 - > Nordics suffered from a challenging H1 performance but results have since stabilised. A change of management in H2 and implementation of our 'One Nordic' structure leaves us well positioned for growth.
 - > The trading environment in Russia and Ukraine continues to be challenging due to geopolitical issues.
 - > Unique holiday mix now 71%. Directly distributed holidays are 68% of Mainstream holidays, with online sales at 38%.
 - > Record customer satisfaction level of 79% maintained across our key markets.
 - > One Mainstream model firmly in place, delivering a more effective and streamlined operation.
 - > Our customers continue to experience the benefits of our digital transformation strategy.
- **Leveraging our global leadership position in Accommodation Wholesaler**
 - > TTV growth of 15% driven by Asia and Latin America.
 - > Strong underlying operating profit growth of 21% at constant currency², exceeds roadmap target.
- **Delivering increased shareholder value**
 - > Free cash flow increases 12% to £477m on a constant currency² basis. The available net cash⁵ position of £371m (2013: £2m) provides further balance sheet strength.
 - > Our £350m October 2014 convertible bond saw 99.6% conversion into TUI Travel shares, demonstrating investor confidence in the business.
 - > Cash conversion rate of 85% (2013: 93%)³ ahead of 70% target; continued strong ROIC performance 14.6% (2013: 14.8%).
 - > A second interim dividend of 20.5p will be payable on completion of the merger. This includes 10.5p in lieu of a final dividend (2013: 9.75p).
- **Pleased with current trading**
 - > Winter 2014/15 – 63% of the programme sold with Mainstream bookings and average selling prices up 1%.
 - > Strong trading in UK continues across both seasons with bookings up 4% for Winter 2014/15 (53% sold) and 9% for Summer 2015 (22% sold).

Revenue

£14,619m

2013: £15,051m -3%

Underlying operating profit

£612m

2013: £589m +4%

Underlying profit before tax

£475m

2013: £461m +3%

Free cash flow

£403m

2013: £427m -6%

Basic underlying earnings per share

29.1p

2013: 30.1p -3%

Dividend per share

24.55p

2013: 13.5p

Year ended 30 September	Underlying results ¹			Statutory results	
	2014 £m	2013 ³ £m	Change %	2014 £m	2013 ³ £m
Revenue	14,619	15,051	-3%	14,619	15,051
Operating profit	612	589	+4%	499	297
Profit before tax	475	461	+3%	362	169
Free cash flow ³	403	427	-6%	403	427
Basic earnings per share (pence)	29.1	30.1	-3%	16.4	4.6
Dividend per share (pence)	24.55 ⁴	13.5		24.55 ⁴	13.5

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

² Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result at prior year rates

³ Comparative figures for the year ended 30 September 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'

⁴ Dividend of 20.5p payable on completion of the merger. This includes 10.5p in lieu of a final dividend

⁵ Net cash position defined as cash and cash equivalents less loans, overdrafts, finance leases and excludes restricted cash.

Our vision

Making travel experiences special...

See 'Our strategic framework and business models' on page 12

Who we are

TUI Travel PLC is one of the world's leading international leisure travel groups, operating in approximately 180 countries worldwide. It serves more than 30 million customers in over 31 source markets. Headquartered in the UK, the Group employs approximately 57,000 people and operates a pan-European airline group consisting of 136 aircraft. The Company is organised and managed through three principal business Sectors: Mainstream, Specialist & Activity and Accommodation & Destinations. In the financial year ended 30 September 2014 TUI Travel had revenues of £14.6bn and an underlying operating profit of £612m.

See 'Our structure' on page 10

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

For more information visit www.tuitravelplc.com

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STRATEGIC REPORT GROUP OVERVIEW

TUI Travel at a glance

THE INVESTMENT CASE

Reasons to invest in TUI Travel PLC

Our growth levers:

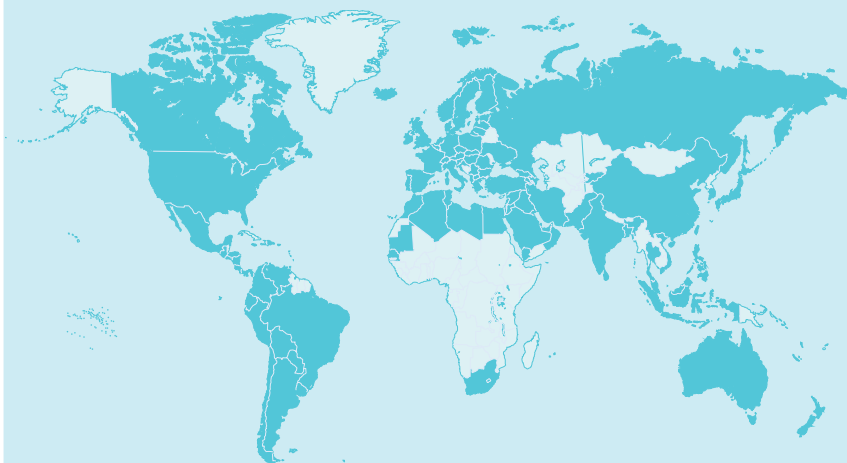
Creating shareholder value

- 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 free cash flow generation, ROIC and operational efficiency
- Pioneering sustainability change in our sector

See more on pages 55 and 56

WHERE WE OPERATE

TUI Travel is a global business operating across 31 key source markets in 180 countries worldwide.



Our 31 key source markets are:

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

WHAT WE DO

Make travel experiences special



WHY WE DO IT

Market overview

Leisure travel market:

- 2013 saw international arrivals increase by 5% to 1,087 million people
- Our main focus for tour operator and destination growth is in Europe where the leisure travel market grew 5.4%
- Our main focus for online accommodation growth is in Asia where we saw the leisure travel market grow 6.2%
- Travel and tourism accounts for 9.5% of global GDP and 1 in 11 jobs worldwide
- Market growth is forecast to rise 4.2% per annum from 2014 – 2024
- 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 08

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 57,000 people is key to the Group's success

See more information on pages 12 to 37

HOW WE MEASURE IT

Our principal KPIs

Return on invested capital

14.6% vs 14.8% (2014 vs 2013)

Cash conversion¹ %

85% vs 93% (2014 vs 2013)

Free cash flow excludes net aircraft pre-delivery payments and movements in restricted cash. 2013 cash conversion restated to reflect the adoption of revised IAS 19 'Employee benefits'.

Unique holidays mix, as a proportion of total Mainstream Sector holidays

71% vs 68% (2014 v 2013*)

*Unique calculation updated to include Airtours brand and long-haul destinations not previously included within packages

Direct distribution mix, as a proportion of total Mainstream Sector holidays

68% vs 66% (2014 vs 2013)

Online distribution mix, as a proportion of total Mainstream Sector holidays

38% vs 35% (2014 vs 2013)

Turnaround and cost savings delivered

£12m

Increase in underlying operating profit on a constant currency basis for Accommodation Wholesaler business

+21%

Carbon efficiency, measured through TUI Travel airlines' average carbon emissions per revenue passenger kilometre (CO₂/RPK):

69.9g CO₂/RPK vs

70.7g CO₂/RPK (2014 vs 2013)

See more information on page 36

WHAT ARE THE RISKS?

Principal risks

Strategic risks

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

Operational risks

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

Compliance risk

- Regulatory environment

See more information on page 42

The merger

The shareholders of TUI Travel PLC and TUI AG have approved an all-share nil premium merger which will complete on 17 December 2015.

STRATEGIC REPORT GROUP OVERVIEW

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:



Our German Mainstream brand, TUI, is the market leader in Germany, operating the widest variety of unique holidays of any tour operator on the German market and is a favourite brand for consumers and travel agencies alike.

For more visit 🔗 www.tui.com



For over 50 years, Thomson has been delivering holidays to the English and Irish market. It is committed to offering holidays that are designed around specific customers' needs, and only exclusively available from Thomson. These unique holiday concepts include Sensatori, Thomson Couples, Thomson Family Resorts, First Choice Holiday Villages and SplashWorld Resorts.

For more visit 🔗 www.thomson.co.uk



airtours is one of the key players in the German luxury travel market, offering exclusive, individual and comprehensive holiday packages for over 40 years.

For more visit 🔗 www.airtours.de



Laterooms.com is a leading consumer facing brand in the UK online travel agent sector, providing a huge variety of hotels to customers. This includes chains, boutique hotels, Bed and Breakfasts and even luxury spas.

For more visit 🔗 www.laterooms.com



Operating over 400 yachts in 22 destinations, The Moorings is the world's leading yacht charter company, offering all-inclusive private luxury crewed yachts for sailing or power yacht holidays.

For more visit 🔗 www.moorings.com



Quark Expeditions is the leading adventure provider for polar-expeditions. For over 20 years it has been offering trips to the most remote regions of the earth, for a number of markets including North America, the United Kingdom and Australia, providing specially equipped vessels and seasoned expedition leaders.

For more visit 🔗 www.quarkexpeditions.com

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

180

The number of
countries the Group
operates in



Fritidsresor is our largest Mainstream business in the Nordic source markets and offers package tours to destinations worldwide, including the Mediterranean, the Canary Islands and Thailand.

For more visit www.fritidsresor.se



Offering a range of city trips, air and car holidays, Jetair is our largest Mainstream brand in Belgium.

For more visit www.jetair.be



Hotelbeds has a market leading position as a global accommodation wholesaler, supplying over 60,000 hotels in 180 countries to tour operators, airlines and travel agents alike.

For more visit www.hotelbeds.com



Intercruises is the world leader in cruise ground handling services, offering first class ground handling services to river cruises and port agencies. It served over 11,000 port calls in 2014.

For more visit www.intercruises.com



Arke is the leading B2C travel brand in the Netherlands, and the key Mainstream brand for the Dutch source market, and has over 100 travel shops across the country.

For more visit www.arke.nl

CRYSTAL

Crystal is the UK & Ireland's largest ski tour operator and has commanding positions in the world's greatest ski areas. From self-catering apartments to fully-catered ski chalets, Crystal takes customers to the best snow resorts worldwide.

For more visit www.crystalski.co.uk

STRATEGIC REPORT GROUP OVERVIEW

Chairman's statement

TUI Travel has delivered another record year. I am pleased to report that we have once again improved our underlying operating profit by 4% to £612m or by 11% on a constant currency basis to £654m (2013: £589m). The Group's underlying basic earnings per share (EPS) decreased by 3% to 29.1p (2013 restated: 30.1p); this was driven by the impact of foreign exchange translation and the expected higher interest and tax charges.

Our statutory operating profit increased to £499m (2013: £297m) following a separately disclosed item credit of £1m (2013: debit of £24m) and no repeat of the £188m goodwill impairment charges relating to our Specialist & Activity business and French tour operator last year. Our statutory EPS has moved from 4.6p in 2013 to 16.4p for 2014.

The TUI Travel and TUI AG merger that was agreed by an overwhelming majority of shareholders on 28 October 2014 is a fantastic result for both businesses. The combined group will achieve further sustainable growth at a faster rate, delivering more value to both shareholders and customers. I am very excited about the opportunities we have for the future.

The travel and tourism industry remains a growing one. International arrivals increased by 5% in 2013 to 1,087 million and are expected to increase by 3.3% a year to reach 1.8 billion by 2030*. We are therefore well positioned as market leader in the leisure sector to take full advantage of this growth industry.

Results

Our strong financial performance is driven by our strategy. We know what our customers want and we continue to deliver unique holiday experiences sold directly to them, increasingly online. Our success is testament to the continuing commitment to put the customer first in everything we do. This year we maintained record customer satisfaction levels of 79% across our key Mainstream Source Markets.

Our unique holidays now account for 71% of all Mainstream holidays, up three percentage points on the prior year (2013: 68%**). The growth in this key strategic area reflects the demand our customers have for our unique holidays.

Holidays that were distributed directly to our customers now make up 68% of Mainstream holidays, up two percentage points on last year (2013: 66%), with online sales at 38%, up three percentage points (2013: 35%).

For more information, please see page 52

Dividends

Following completion of the merger with TUI AG and as stated in the prospectus, we understand the Directors of the combined group intend to adopt a dividend policy in line with TUI Travel's present progressive dividend policy under which dividends grow broadly in line with earnings. TUI Travel shareholders (including TUI AG) will receive a second interim dividend of 20.5 pence per TUI Travel share, to include 10.5 pence per TUI Travel share in lieu of a final dividend (2013: 9.75p) for the financial year 2013/14. At the time of our interim results, the Board proposed an increase of 8% to 4.05p (2013: 3.75p), leading to a full year dividend of 24.55p (2013: 13.5p). Provided the performance of the combined group develops in line with expectations, the combined group will target an increase in its dividend per share for the financial years 2014/15 and 2015/16 of 10% in excess of the growth in the underlying earnings per share growth for the combined group.

Board

On 7 February 2014 Val Gooding and Vladimir Yakushev were appointed as Independent Non-Executive Directors. Vladimir Yakushev resigned on 24 March 2014. On 16 December 2013 Volker Böttcher and Tony Campbell resigned and retired respectively. Harold Sher also retired from the Board on 18 September 2014. Their knowledge and experience was greatly valued and will be missed.

For more information on the Board, please see page 64

Sustainable development

Our sustainability performance has been recognised through many achievements this year, including joint first place in the FTSE 350 with a 'perfect 100' score for climate change reporting and transparency (Carbon Disclosure Project). We have made significant progress in the final year of our Sustainable Holidays Plan – our three-year sustainability strategy which aligns with our corporate strategy and strategic drivers. Our airlines are Europe's most carbon efficient. In FY14, TUI Travel airline's CO₂ per revenue passenger kilometre was 69.9g – an improvement of 10.3% over the last six years. We also exceeded our goal to deliver 10 million greener and fairer holidays over three years, by taking over 11.5 million customers to hotels with credible sustainability certifications.

Sustainability is a priority for our business and our industry – we have experienced a range of business benefits, including cost efficiencies, quality improvements and the enhanced engagement of customers, colleagues and suppliers. We aim to continue to lead the industry by making real changes at scale.

For more information, please visit page 24

Colleagues

I am extremely proud of each and every one of our 57,000 colleagues who have combined to deliver another set of record results. Through meeting our colleagues across the business, it is their unbridled passion and drive to deliver the best holiday experience for our customers that is a key success factor for our Group. Aligned with the vision of 'Making travel experiences special', the hard work, commitment and dedication of our colleagues are essential to the future growth of the business. On behalf of the Board, I would like to thank all of them personally for their efforts in producing another fantastic, record-breaking year for TUI Travel PLC.

Friedrich Jousen
Non-Executive Chairman

Another record year...

*UNWTO's Long Term Forecast: 'Tourism Towards 2030'
**Unique calculation updated to include Airtours brand and long-haul destinations not previously included within packages



Chief Executive's statement

Before anything else, I would like to thank our 57,000 colleagues across the Group, whose hard work and determination is the reason for this year's success.

Having delivered 11% growth in underlying operating profit on a constant currency basis, we have outperformed our growth roadmap for the second year in a row.

The merger with TUI AG will strengthen and future-proof the combined group. It will also enhance the certainty of long-term unique holiday growth and reinforce our clear competitive advantage through further control over the end-to-end customer experience. This will mark the start of an exciting new phase of growth, delivering significant opportunities and value to customers, employees and shareholders.

Our Mainstream strategy is delivering sustainable, profitable growth through our focus on unique holidays, direct distribution and optimum leveraging of our scale, all contributing to the 13% growth in underlying operating profit on a constant currency basis of the Sector this year.

Accommodation & Destination had another good year. The Accommodation Wholesaler business was the stand out performer with underlying operating profit growth of 21% on a constant currency basis. Over the year, we sold 27.8 million roomnights across the Sector, up 10% on the year before.

Specialist & Activity has seen a more mixed performance: tougher trading in Adventure and Marine offset by strong results from the North American Specialist and Education businesses, and weak comparatives in Sport led to a performance broadly in line with last year.

We have continued to deliver on our five strategic drivers across the Group. Unique holidays now account for an impressive 71% of our Mainstream sales, the business benefits of which include higher average selling prices, higher rates of retention and earlier bookings. Continuing to build on our portfolio of unique products, the UK business opened 10 new Thomson Couples resorts, nine Thomson Scene, one additional Holiday Village and another flagship Sensatori hotel. We are targeting a 76% mix of unique content by 2017 and we are confident that we will achieve this. Online holiday sales stand at 38% of Mainstream sales. This is up from 21% in 2007 and we are targeting 50% online sales for Mainstream by 2017.

The TUI Digital Assistant app continues to be a huge success; it has now been launched in five Source Markets and has been downloaded one million times. The app allows us to be present at every stage of the end-to-end customer journey. We have continued to enhance the app over the year, and are looking forward to implementing some key strategic developments to it over the coming months. A key development has been the introduction of the search and book functionality, allowing users to find and book their dream holiday using their mobile device.

We have continued to take delivery of our Boeing 787 Dreamliners, with Arkefly and Jetairfly flying their first this year. The aircraft, which have received fantastic customer feedback, are delivering the targeted 20% of fuel savings which, along with substantial financial benefits, helps us to achieve our sustainability commitment to operate Europe's most fuel efficient airlines.

Also this year, we have built on the foundations of One Mainstream, which allows us to take full advantage of our scale and buying power and delivers more effective operations across the sector. One Aviation is a great example of the success of such collaboration, building one virtual airline operated from various locations, delivering significant reductions in overheads and sharing best practice.

We are well positioned to build on our record performance next year as part of a new combined group. Our Winter 2014/15 programme is currently 63% sold, with the UK sales to date up 4% year-on-year. Our Summer 15 programme has seen an impressive start to trading in the UK, with current bookings up 9% compared to 2014.

It is clear to me that our colleagues are the driving force behind our fantastic results. Our people are a key differentiator for TUI Travel, they set us apart from our competition and I would like to thank them for their continued commitment and passion.

Since the formation of TUI Travel in 2007 we have been on a journey of value creation for shareholders. Total shareholder return has grown by 138% since that time, a strong performance against challenging market conditions. Future-proofing our business through the merger with TUI AG will enable our continued sustainable growth going forward. I am looking forward to completing the merger with TUI AG (expected on 17 December 2014) and to beginning the next chapter of our journey as a new, stronger, combined group in the coming years.

Peter Long
Chief Executive



11%

Growth in underlying operating profit on a constant currency basis

STRATEGIC REPORT

Why we do it: Market overview

The economic environment

The global economic outlook remained steady in 2014 with GDP growth projections of 3.3% (2013: 3.3%)¹. The outlook results from mixed geographical performances with the UK, Germany and Spain strengthening on 2013, offset by weak growth in the United States, as well as ongoing tensions in Russia and the Middle East. Despite these downsides, the positive trend is expected to continue into 2015, when global growth is expected to rise to 3.8%¹.

Within the Eurozone, growth is expected to register at 0.8% in 2014 and 1.3% in 2015, following two years of decline¹. Our two main source markets, UK and Germany, registered the biggest growth increase amongst advanced economies, growing 3.2% and 1.4% respectively¹. Unemployment is slowly decreasing, down to 6.3% in the UK (from 7.7%) and to 5% from 5.3% in Germany².

The leisure travel market

Arrivals increased again by 5% to 1,087 million in 2013 following the record breaking 2012 where international arrivals surpassed the one billion mark for the first time³. The regional trends remain broadly in line with those of last year. Europe, which is responsible for over 50% of global arrivals and our main focus both in terms of tour operator market and destination growth, and Asia, our focus for online accommodation growth, registered the largest increases on last year at 5.4% and 6.2% respectively³. The Middle East was the only region to suffer a decrease, albeit only by 0.2%, a vast improvement on the 5.4% decrease registered from 2011 to 2012³. Europe is the only region to see a year-on-year increase in growth rate with all other regions showing slightly slower growth than the previous year. A stronger euro also helped contribute to a healthy increase in tourist receipts in the region of \$490bn³.

We are operating in an increasingly dynamic environment; this year saw the proliferation of peer-to-peer business models, a challenging environment for airlines – both scheduled and Low Cost Carriers, and the continued growth of online travel agencies. Demand for leisure travel remains strong and, as our main markets recover from economic stagnation, we are well positioned to maintain our market-leading positions and grow further.

The range and quality of our product is well positioned to serve the interests of different customer types. Our dedication to our unique holiday strategy in Mainstream, and to product variety and scope in online accommodation, coupled with a commitment to digital transformation across both models, ensures we continue to cater to the changing needs of our customer.

The sustainability challenge

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 – contributing 9% of global GDP and 6% of global exports³. It is responsible for 1 in 11 jobs globally³ and is the main source of foreign exchange in one-third of developing countries⁴. Travel and tourism also accounts for around 5% of global carbon dioxide emissions⁴, half of which is attributable to aviation. Recent UN research shows that only 34% of countries said that their tourism sector was guided by a 'sustainable tourism' policy⁴. Therefore the challenge for our industry is to maximise the positive social and economic impacts of tourism while minimising environmental impacts.

Supporting local livelihoods and protecting the environment is not only the right thing to do, but brings a significant business benefit as well. In 2012, we developed our Sustainable Holidays Plan 2012 – 2014, which 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.

See our Sustainable development section on page 24 and www.tuitravel.com for more information.

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 airlines, are heavily regulated. Lawmakers continue to focus upon how they can balance consumer protection with the need to promote growth and protect jobs.

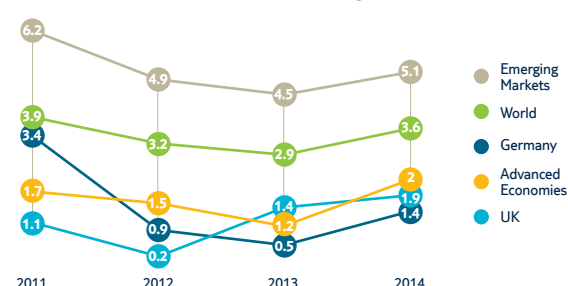
Our political and regulatory affairs team seek to engage with legislators at an early stage in relation to all of those areas of regulation which may have a material impact upon the way we do business. Our focus is always to work with governments to bring forward legislation that is fit for purpose,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

The last 12 months have seen continuing developments at the European level in respect of two major areas of legislative reform: Air Passenger Rights and the Package Travel Directive. We have engaged consistently with the Commission, the European Parliament and with member states as they have considered these reforms and will continue to do so over the coming 12 months.

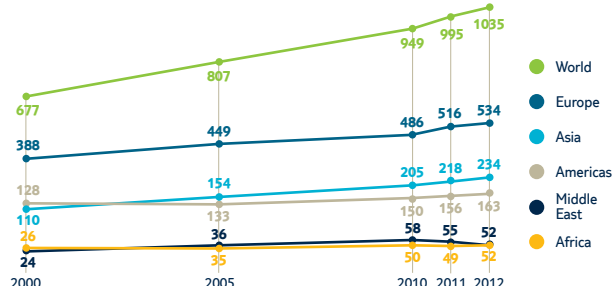
Aviation taxation also remains on the agenda as governments across the world look for ways to increase revenue. Our role is to remind them of the importance of the travel and tourism industry as a driver for growth.

In the UK, the debate on airport capacity continues, following publication of a report from the Airports Commission in December 2013. 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.

WORLD ECONOMIC OUTLOOK % change in GDP



INTERNATIONAL ARRIVALS (M)

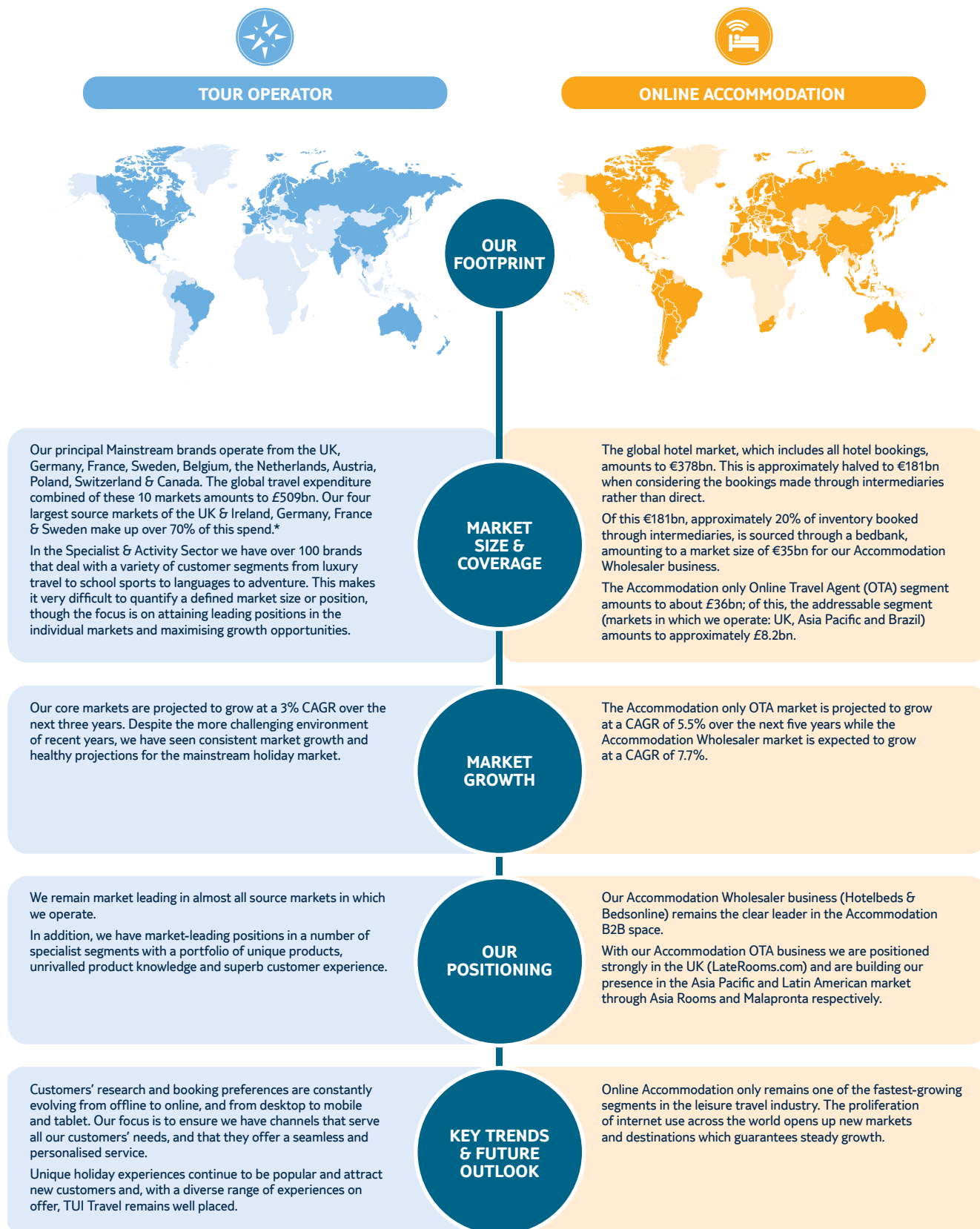


1. IMF World Economic Update, October 2014

2. Eurostat

3. UNWTO Tourism Highlights 2014

4. United Nations Environment Programme (UNEP), 2014

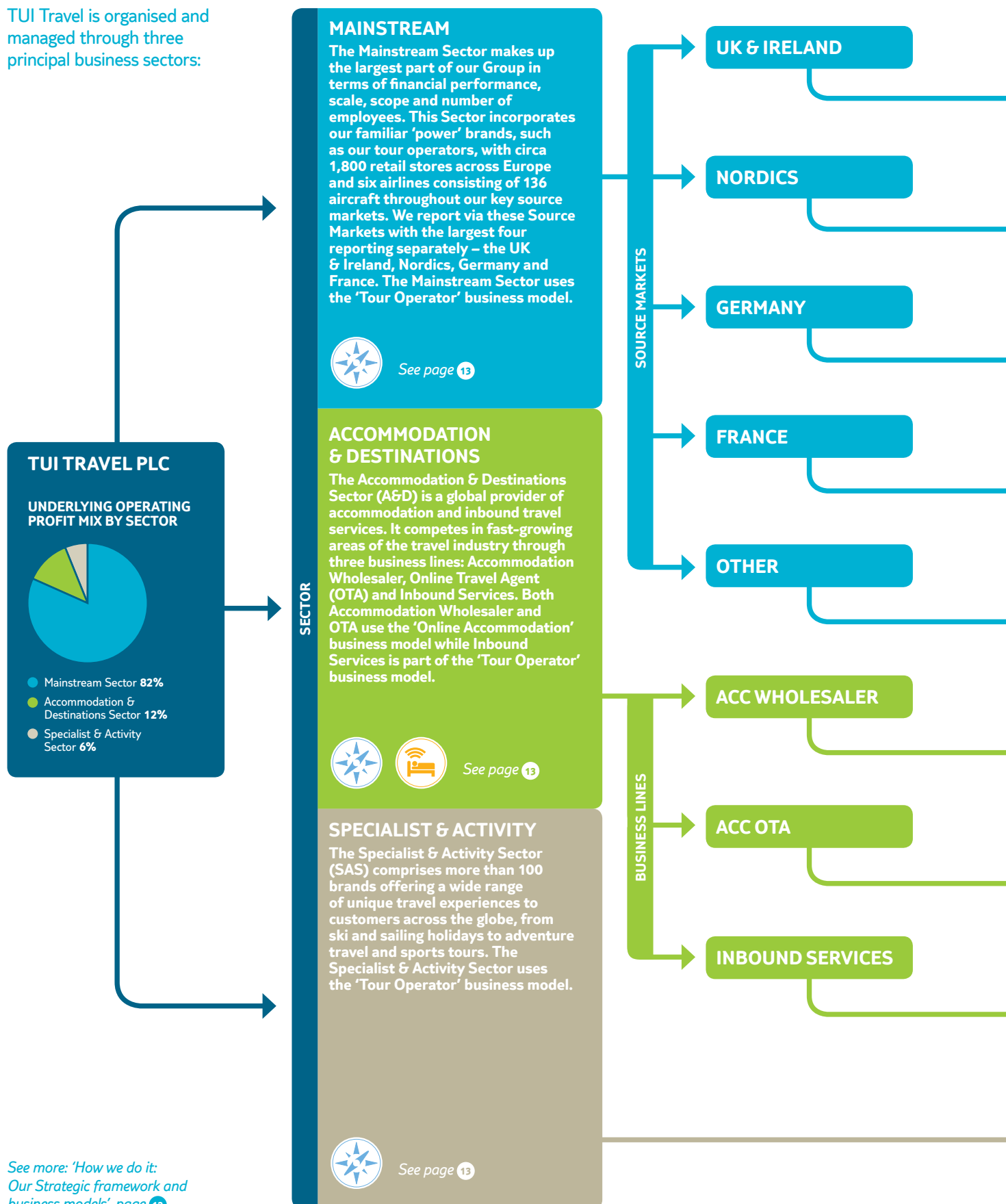


*Source: Euromonitor

STRATEGIC REPORT

How we do it: Our structure

TUI Travel is organised and managed through three principal business sectors:



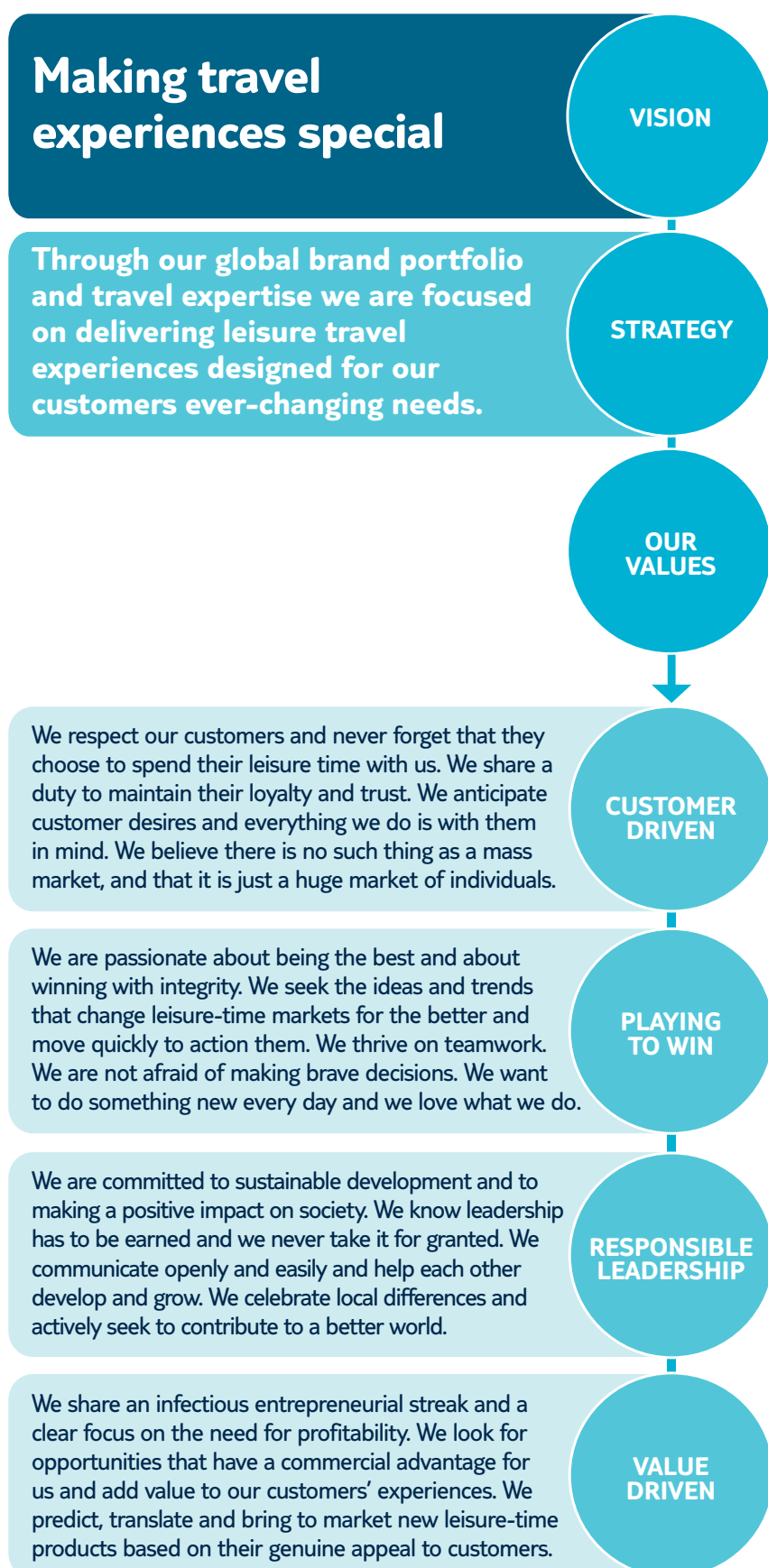
KEY DESTINATIONS	CUSTOMER NUMBERS/ ROOMNIGHTS	KEY BRANDS
Canary Islands, Balearic Islands and Greece	5.2m passengers	 
Canary Islands, Greece and Turkey	1.6m passengers	  
Balearic Islands, Turkey and Canary Islands	6.2m passengers	 
Morocco, Tunisia and Turkey	1.4m passengers	 
Turkey, Canary Islands and Spain	5.1m passengers	 
USA, Spain and Turkey	27.8m roomnights	 
UK, Brazil, Singapore and Malaysia		  
Spain, Turkey and Greece	13m passengers	  
Italy, France and USA	1.3m customers	 

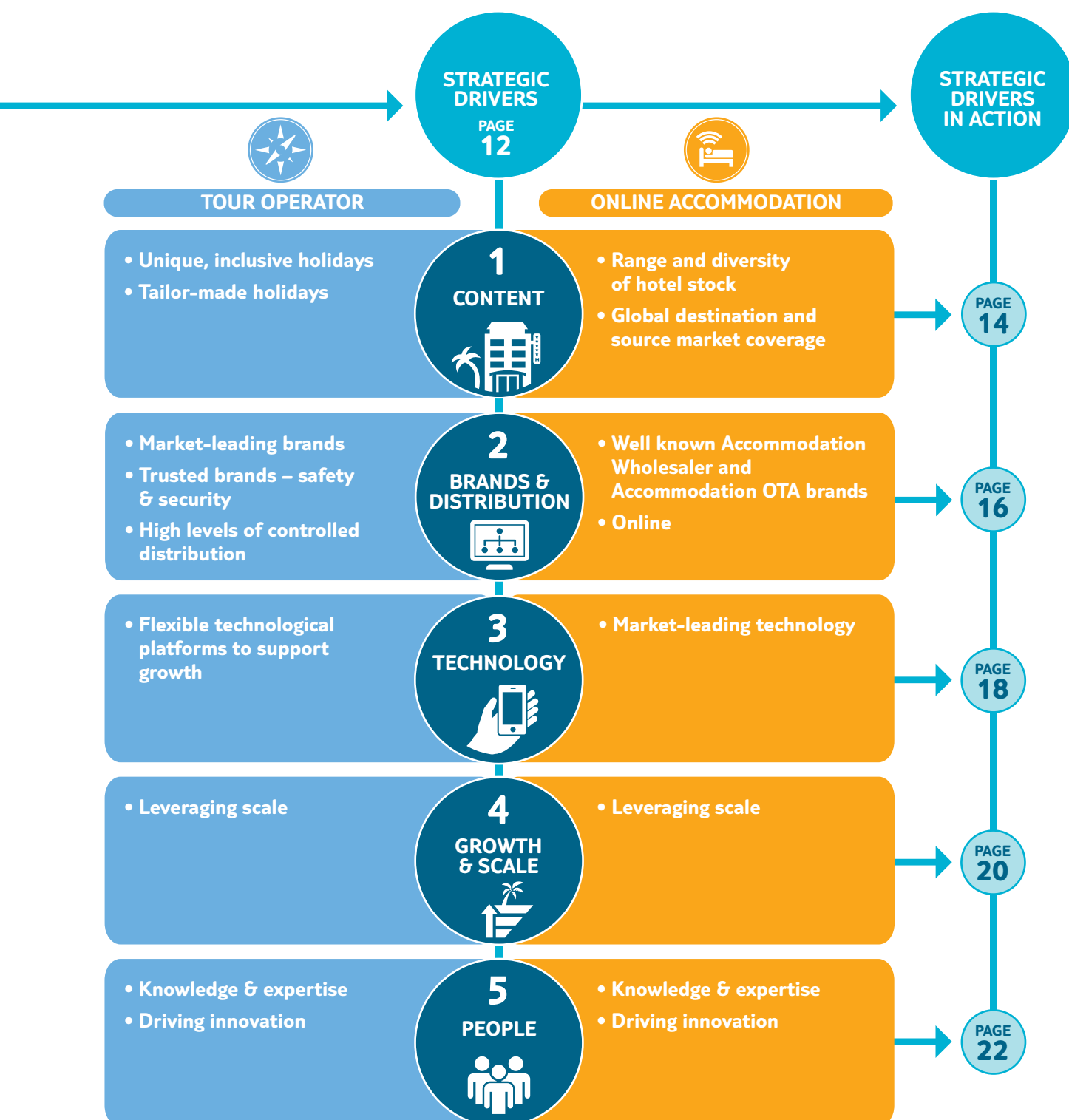
STRATEGIC REPORT

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 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 key strategic drivers' section page 14





STRATEGIC REPORT

How we do it: Our key strategic drivers

The next few pages will provide further detail on what our strategic drivers mean to our Tour Operator and Online Accommodation businesses. This will focus on why they are important, how we adhere to them operationally, and how we know they are working. Whilst the focus of some of our strategic drivers will be considerably different, others demonstrate clear similarities, highlighting the underlying unity between the two models.



1. Content

see adjacent ►



2. Brands & Distribution

see page 16



3. Technology

see page 18



4. Growth & Scale

see page 20



5. People

see page 22

1. Content

CONTENT CASE STUDY

Differentiating through Dreamliners

This year, our Boeing 787 Dreamliner fleet has continued to grow, with both JetAirFly and ArkeFly receiving their first aircraft. The Dreamliner is a key differentiator for TUI Travel, further enabling us to provide an outstanding experience throughout the customer journey, not only in resort. They have received consistently high scores in customer satisfaction questionnaires.

Unique
holiday mix
now
71%



Unique holidays form the backbone of our Tour Operator strategy



Why is it important?

- By pursuing a unique content strategy we are able to cater to the needs of clearly defined customer segments, thereby appealing to a wide range of our addressable market.
- The investment in designing and delivering our different hotel concepts attracts satisfied and repeat customers; validated by higher satisfaction and retention scores across source markets.
- The inclusion of value added services and features, such as private transfers and swim-up rooms, commands a higher margin.
- Our unique content books earlier than commodity products enabling us to manage our capacity and yield more effectively.
- By offering content which is exclusive to us, we can distance ourselves from the competition and limit comparisons on meta search engines, e.g. Kayak or Trivago

What are we doing about it?

- In Mainstream we are continuously reviewing our existing concept portfolio, adapting where appropriate for different source markets and opening new destinations.
- In FY14 we opened Sensatori Jamaica, the sixth property in the collection with a further three in Ibiza, Turkey and Cyprus on sale for Summer 15. Sensatori has seen year-on-year pax growth of 40% since it was launched in FY09.
- Unique content has grown from 68% in FY13 to 71% in FY14.
- Our Specialist & Activity brand Citalia launched 'Citalia Secrets', offering pre-departure knowledgeable advice and hidden secrets on customer chosen destinations in Italy.

Our range and diversity is attractive to our customers



Why is it important?

- The increase in airline capacity, and continued success of Low-Cost Carriers, has created a large market of customers looking for a range of accommodation options all over the world.
- To capture this market, it is imperative that digital content is clear, relevant and well presented.
- Getting this right will ensure customer loyalty and repeat customers.

What are we doing about it?

- Selling a wide variety of product, in terms of high quality, destination and budget. In FY14 we added a further seven destinations to our Accommodation Wholesaler portfolio and increased our hotel count to nearly 70,000.
- In FY14 the Accommodation Wholesaler business diversified its offering to also sell transfers and activities. With nearly 20,000 transfers and activities contracted for FY14, it is building a solid position in a profitable market place.
- Over the past year Accommodation Wholesaler TTV has grown significantly in the key regions of Asia and Africa which has contributed to an impressive divisional TTV growth rate of 15% year-on-year.
- FY14 saw a 37% increase in hotel inventory on Malapronta, driven by domestic content.





2. Brands & Distribution

BRANDS & DISTRIBUTION CASE STUDY

Successful Sensatori

Thomson's Sensatori brand champions affordable luxury and is designed to fuel the senses with world class spas and gourmet dining. As a result of its huge popularity, it is set to grow by 50% over the next year, opening three new resorts: Sensatori Ibiza, Sensatori Resort Aphrodite Hills (Cyprus) and Sensatori Resort Fethiye (Turkey).



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



Why is it important?

- The benefits from a direct distribution strategy are two-fold: it enables us to form a direct relationship with the customer, and thereby understand more about what they are looking for, and also drives down our distribution costs.
- Customers increasingly expect a standardised service and offering across different devices and therefore we need to ensure we are ahead of the curve with our digital developments.
- In a densely populated industry, the robustness of our brand names and the financial security and quality they promise are very important.
- Recognisable brands are particularly important in an online world, helping to direct organic traffic and improving conversion.

What are we doing about it?

- In our capacity as an end-to-end operator we consider 'online' as the whole journey from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media.
- We recognise the changing role of the travel agency which remains an important part of the booking process for many of our customers. Our new concept stores, which incorporate digital elements and inspiration, have seen increased traffic and improved customer interaction and this year our Thomson stores beat cross industry competition to win the Digital Store of the Year award.
- These efforts have seen our direct share of bookings increase from 66% in FY13 to 68% in FY14.
- Thomson Sport, the sports-fan focused arm of Specialist & Activity, recently signed a partnership with Manchester City to be the club's official supplier of supporter travel, and another brand, Gullivers, signed a similar six-year deal with the Welsh Rugby Union.

Distribution is key to the successful performance of the Online Accommodation business



Why is it important?

- Unlike our tour operator business, we do not have input into the physical content but instead create value with our digital content, branding and distribution.
- In our Accommodation Wholesaler business, we have a long established reputation to maintain so that we can grow both with existing customers and in new geographies. Our customers expect an easy-to-use interface, breadth of content and reliable service; delivery of this is a critical success factor.
- Our Accommodation OTA brands operate in a far more crowded market place where having a trusted and recognisable brand is vital in driving online traffic. Therefore working on our brand to increase awareness is the most efficient way to attract new customers.

What are we doing about it?

- FY14 saw particular focus on the growth of our agency distribution arm Bedsonline. Efforts in Europe and the Americas in particular saw agent numbers increase by nearly 30%.
- Our Accommodation Wholesaler business partnered with easyJet holidays in mid-2014, becoming the operator's accommodation provider. This partnership allows distribution of our content to a far wider customer base.
- In our Accommodation OTA business we remain focused on building on our strong brand positioning of LateRooms.com in the UK and expanding in the emerging markets through AsiaRooms.com and MalaPronta.com. This year LateRooms.com brand messaging reached over one million users across all social media platforms including Google+, Instagram, Facebook, Tumblr, Pinterest and Twitter.

Mainstream
Direct
Distribution
now
68%



3. Technology

TECHNOLOGY CASE STUDY

TUI Digital Assistant now Live in Five

This year has seen the international roll-out of the TUI Digital Assistant (TDA). Capitalising on the scale of our business, the app, which was first developed for the UK as 'My Thomson', has been translated for five of our key source markets.

With a total of over one million downloads to date – 120,000 in the month of July 2014 alone – the Digital Assistant is a 'one stop shop' for everything customers need. Available for Android and iOS devices, it includes everything from inspiration, research, booking, flight information and luggage allowance details, to maps to help customers plan the best route to the airports. The TDA has a number of exciting new innovations planned in 2015.



Technology underpins the distribution and content pillars of our strategy



Why is it important?

- The complexity of our product (multiple components) and distribution pattern (e.g. a six-month lag between purchase and consumption) requires us to have robust and inter-linking systems to ensure a seamless customer service and reliable management information.
- Innovation in technology means we can develop new ways to inspire our customers and make their booking process as user-friendly as possible.
- Enables us to offer our customers the best possible value by having an efficient technology infrastructure and therefore driving maximum savings and efficiencies.

What are we doing about it?

- This year Thomson launched a system called Connect, linking the digital, retail and call centre businesses. Connect allows customer information to be shared across booking platforms, meaning online or call-centre bookings can be followed up in shops. The system will make customer data available from the point of booking onwards, allowing frontline staff to offer a more personalised service.
- In FY14 we launched Holiday Open Day, an online tool which allows the customer to virtually explore and select different options which our concepts offer and consequently suggest the most suitable product for their next holiday.
- We rolled out the TDA in other markets (from Sweden to Austria) whilst simultaneously updating its functionality. The app had been downloaded one million times with more updates in the pipeline.
- Our Specialist business also launched a range of successful apps, most notably: Crystal Ski Explorer complemented by live Facebook, live chat and mobile optimised sites to support their multi-channel distribution strategy.

Investment in Technology is essential for our online-based Accommodation businesses



Why is it important?

- Similarly to our tour operator business, the main areas where technology can benefit our business are through enhanced user experience at the front end and the rationalisation of systems and platforms at the back end.
- As our OTAs interact directly with the customer, user experience is of utmost importance as customers have come to expect an intuitive and fast interface that delivers relevant results.
- Having efficient technology platforms allows us to drive cost savings and therefore provides further value to our customers.

What are we doing about it?

- Accommodation Wholesaler's in-house platform is one of the most robust and flexible in the industry, allowing for quick connectivity with hotel suppliers as well as our customer base of travel agencies, tour operators and OTAs.
- FY14 saw the launch of the dedicated XML link for the transfer and activity bank which we expect to gain further traction next year.
- In our Accommodation OTA business, we are continuing to invest in a new platform to support our growth strategy: the Brazilian OTA Malapronta started offering payments by instalments in FY14 – an option which is very popular in that market, accounting for over 42% of online purchases.
- Following the success last year of the LateRooms app, apps were launched for AsiaRooms and Malapronta in early FY14 and have generated over 600k downloads to date across the three brands.

**1 million
TDA
downloads**



4. Growth & Scale

GROWTH & SCALE CASE STUDY

Scale Leads to Success

In December 2013, TUI Travel announced its 'One Mainstream' strategy. The purpose of One Mainstream is to generate further growth, innovation and cost efficiencies for the Group. Leveraging our scale, we have been able to develop new functional groups, such as Mainstream Product & Purchasing, and Distribution & Online. One Mainstream has also involved building business clusters from existing source markets, for example, TUI Benelux – formed of TUI Belgium, Netherlands and Luxembourg, where operational efficiencies have been implemented through joint aviation operations to Mombasa and Zanzibar for Summer 14 and Florida for Winter 14.

Our five charter airlines are also changing – One Aviation, another part of One Mainstream, is building a virtual airline. This means that we will act 'as one' wherever it makes sense to do so, maintaining local differences where the benefit of that differentiation is greater than that of harmonisation – one team does not mean one location.



Our scale and potential for growth make us unique



Why is this important?

- We are the largest integrated leisure travel company in the world in terms of both scope of operation, geography and customers. We are market leaders in most of the markets in which we operate and we constantly strive to maintain our leading positions.
- Enables us to drive economies of scale, further synergies and cost efficiencies and therefore provides added value to customers.

What are we doing about it?

- We further deployed the Dreamliner aircraft across our Mainstream business, giving our customers a superior flight experience and allowing us to offer new long-haul destinations and more capacity to existing ones. Our Benelux airlines Arkefly and Jetairfly were the latest to offer flights on the Dreamliner in August.
- The Mainstream functions are working closer together with central structures in place for distribution, aviation, product and purchasing and digital. This allows the different markets to collaborate on initiatives and learn best practice from each other.
- Our Specialist & Activity brand, TCS Expeditions, the world leader in private jet travel, added a new first-class dedicated Boeing 757 custom-configured cabin with 52 flat-bed seats to its fleet. The plane was designed in collaboration with Four Seasons Hotels & Resorts as part of the ongoing strategic partnership.
- For the second consecutive year in FY14 we delivered on our growth roadmap of 7-10% EBITA growth (at constant currency) as set out at the beginning of the year.

Scale is a critical success factor for any online accommodation business



Why is it important?

- Online driven businesses need to compete with global players and compete for customers in all markets to take market share.
- In a price-driven, lower-margin business, it is imperative for us to achieve high volumes which can be leveraged to gain competitive advantage.

What are we doing about it?

- Hotelbeds and Bedsonline are clear market leaders in the B2B space with operations in over 100 countries. We are continuing to follow our strategy of consolidating our market-leading position by expanding in destination and source markets.
- Within the Accommodation OTA division we cover three attractive markets:
 - > LateRooms.com has maintained its position as number two against fierce competition in the UK accommodation-only OTA market. Our focus is on profitable growth through product quality and multi-channel optimisation.
 - > AsiaRooms.com is now an established and growing brand in the Asia-Pacific region, focused on seven key APAC countries and intra-Asia corridors.
 - > MalaPronta.com continues to establish itself in South America, a fast-growing and lucrative market.
- Accommodation OTA can benefit from access to the merchant stock available through Accommodation Wholesaler.
- Accommodation Wholesaler saw a further 26% growth in the number of XML links between their inventory and tour operators/travel agencies' booking systems.

**One
Mainstream
now in
place**



5. People

PEOPLE CASE STUDY

Communicating the vision

This year, we set out to unite the Group's 57,000 colleagues worldwide. The video which was produced brings to life the human resources vision in a consistent, effortless and engaging manner for colleagues and ensures that all fully understand the employer brand. The video explains how our vision of 'making travel experiences special' is achieved through shared values.



People are a key differentiator at TUI Travel



Why is it important?

- As a customer-facing, service-driven company our people are a key element of our success. From reps in resort, cabin crew, agents, to colleagues in head office – the knowledge and customer focus of our employees is what helps us maintain our market-leading positions.
- Satisfaction and loyalty of our customers are important ingredients to help us grow. A key driver for this is their holiday experience and the service they receive from the time they book to the interaction in resort.
- Given the nature of what we do, we need to attract and retain colleagues with specific skills across the tour operator discipline.

What are we doing about it?

- Communicating with colleagues regularly and openly, whether it be informal blog posts from the Board, or organised 'Town Hall' meetings to give updates on the strategy and five-year plan of the business.
- Enhancing our existing development programmes for senior managers and executives and adding a new programme for junior managers. This year the Specialist & Activity Sector added a fourth programme, Navigator, designed for those at the beginning of their management careers, to help them build networks, understand the breadth of the organisation and learn about key industry trends.
- Our International Graduate Leadership Programme and TUI UK Graduate Scheme continue to attract high-quality talent from across the world and are considered among the best in the industry.
- Within Specialist Holidays Group, part of our Specialist & Activity Sector, a 'Spreading Smiles' programme was launched across all brands, showcasing how the Sector works together to generate opportunities for collaboration and teamwork.
- Four senior female leaders within the business were recognised as some of the most influential women in travel at the British Travel Industry Hall of Fame.

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



Why is it important?

- The online accommodation business is driven by the talent it employs; with thousands of people across a variety of locations and functions.
- Digitally skilled and innovative talent are necessary for the online accommodation industry, making it a competitive sector as an employer.

What are we doing about it?

- Building a strong brand proposition to attract and retain the best 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 global 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 its global growth ambitions.
- Launch of a programme comprising Personal Reviews, Organisational Management and Succession Planning with the view to ensuring we develop our internal talent with clear career paths and targeted development programmes.

57,000
colleagues
across the
Group

STRATEGIC REPORT

How we do it: Sustainable development

We want our holidays to benefit local people and to protect the environment. It is important to us not just because it is the right thing to do, but because our products – memorable and unique holidays – rely on beautiful and welcoming tourist destinations. Managing our impact means we can maintain the quality, viability and desirability of our holidays for years to come. 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 (*see our values on page 25*) extends beyond our Group. In FY14 we were pleased that our performance was recognised as follows:

- For the seventh consecutive year TUI Travel was featured in the Climate Disclosure Leadership Index (CDLI) and was ranked joint first in the FTSE 350 for our approach to carbon disclosure and governance. TUI Travel was the only company in the travel and leisure sector to feature in the 2014 CDLI. www.cdproject.net
- TUI Travel was recognised by Carbon Clear for its approach to carbon reporting, ranking the Company 4th 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.
- We were a finalist in the business category of the World Travel & Tourism Council's 2014 Tourism for Tomorrow awards.

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 responsible for reporting on sustainable development to the TUI Travel Board 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 TUI Travel.

The Group Sustainable Development Department's role is to drive change towards a more sustainable business and continue to lead the industry. The Department works closely with other Group departments 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.

We work with Forum for the Future, a global sustainable development NGO which selects a handful of companies as 'Pioneer' partners, defined as leading organisations at the cutting edge of sustainability. TUI Travel has been selected as one of these partners.

Risk management

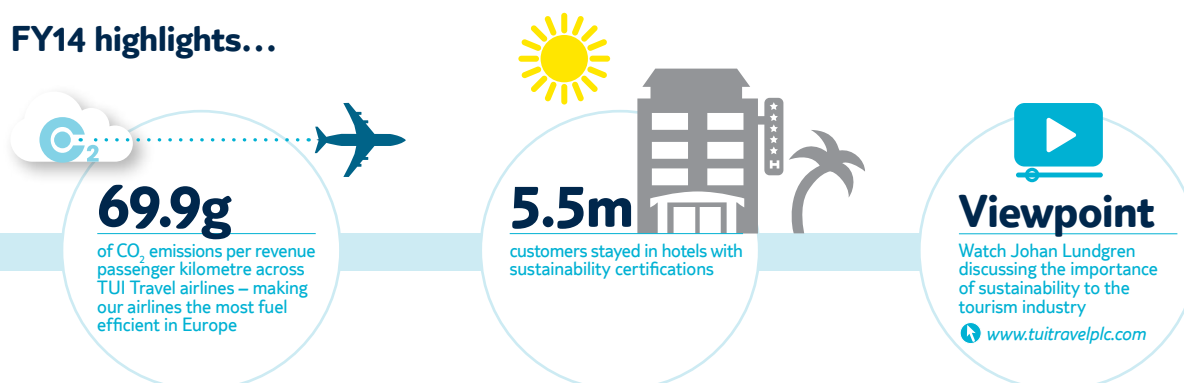
Policy and mitigation for Group-wide risks relating to sustainability are facilitated by the Group Risk Management and Sustainable Development Departments, with responsibility for managing such risks also shared by the businesses themselves. Increasing legislative and societal demands on a company like ours requires 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's carbon footprint.
- Ensuring that the actions of our colleagues uphold TUI Travel's sustainable development policy.
- Ensuring that the actions of our suppliers uphold TUI Travel's environmental and social supplier standards.
- Putting measures in place to enable us to gain a better understanding of the socio-economic impacts of tourism.
- Ensuring we are aware of potential damage to, and the quality of, destinations due to ecosystem degradation and climate change.
- Being aware of customer expectation in respect of sustainability.

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*

FY14 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 shows significant integration of environmental and social principles in the way we do business – including 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 with colleagues and customers in sustainability. Our Sustainable Holidays Plan aligns with our corporate strategy.

For further details on our Sustainable Holidays Plan including our 20 commitments, see www.tuitravelplc.com/sustainability

Our Sustainable Holidays Report 2014 is due out in Spring 2015.



STRATEGIC REPORT HOW WE DO IT

Sustainable development

Destinations

We are proud of the positive role our industry plays around the world. The travel and tourism sector accounts for 9% of the world's GDP and 6% of its exports (UNWTO, 2014). It is responsible for one in 11 jobs globally (UNWTO, 2014) and is the main source of foreign exchange in one-third of developing countries (UNEP, 2014).

However, we know that travel and tourism can also have unintended negative consequences and are committed to understanding and enhancing the socio-economic impacts of our holidays. There are also significant environmental challenges: for example, water will be a key challenge for our industry in the coming decades, particularly in island states. Our challenge is to maximise the positive social and economic impacts of tourism in all our destinations and to minimise environmental impacts.

We are committed to influencing more hotels to achieve credible sustainability certifications which provides us with assurance that our suppliers are making continual sustainability improvements. This not only improves our sustainability performance but also benefits our suppliers.

Our most sustainably-managed hotels deliver higher quality and customer satisfaction. Analysis of over 1.4 million customer satisfaction questionnaires within TUI UK & Ireland in 2012 and 2013 showed that hotels with Travelife sustainability awards scored higher on overall satisfaction. From this, we can conclude that our customers experience a link between sustainability and quality.

Good sustainability management – and good environmental management in particular – can have a significant effect on a hotel's operating costs. For example, depending on the region, energy costs can account for between 5% and 15% of a hotel's operating costs (blueContec, 2012). So encouraging hotel suppliers to use energy more efficiently, and also to use renewable energy wherever feasible, helps them save on one of their biggest costs as well as helping destinations prepare for a low carbon future.

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 by working with the Global Sustainable Tourism Council (such as Travelife) and international environmental management standards such as ISO 14001 and EMAS.



In many destinations, TUI Travel accounts for a significant percentage of tourist arrivals. That means we contribute, directly or indirectly, to many of the jobs, tourism-related businesses and tax revenues in destination countries.

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 sustainable management of destinations. Examples include: The Global Sustainable Tourism Council, The Dutch Association of Travel Agents & Tour Operators, Deutscher ReiseVerband, GIZ, Association of British Travel Agents and The Travel Foundation.

FY14 Highlights

- We took over 5.5 million customers to hotels with credible sustainability certifications.
- We featured over 5,900 hotels with sustainability certifications.
- We organised sustainability supplier workshops in Germany, Greece, Italy, Morocco, Spain, Tunisia and Turkey.
- We launched the TUI Collection – a set of excursions tailored to give customers a true taste of the destination. Excursions have to meet specific sustainability criteria to be included in the Collection.
- Aitken Spence Travels in Sri Lanka, part of our Accommodation & Destinations Sector, won a Gold Award for its ecotourism initiative at the 2014 Pacific Asia Travel Association (PATA) Awards.
- TUI UK was the first travel company in the UK to be certified to the Travelife standard for tour operators and Sawadee also achieved certification in 2014, following on from TUI Nederland which was the first major travel company worldwide to be certified in 2013.
- TUI Nordic was the first tour operator in the Nordic region to achieve ISO 14001 certification and TUI Deutschland successfully renewed its ISO 14001 which it has held since 2003.

5,900

This year, we featured over 5,900 hotels which had sustainability certifications



11.5m

Over 11.5 million customers stayed in hotels with sustainability certifications over the last three years



- Sportsworld achieved ISO 20121 for sustainable event management.
- TUI Nederland won the 'Overall winner' award and the 'Best for child protection' award at the 2013 World Responsible Tourism Awards.

We are involved in hundreds of projects that support communities and reduce environmental impacts. Where we can, we focus on those destinations where we send the most customers and where we believe we can make the greatest difference. In FY14 this included Brazil, Cape Verde, Jamaica, Spain, Thailand, Tunisia and Turkey.

Measuring tourism's impact

We are trialling a big picture approach to measuring and understanding the impact of tourism. In partnership with the Travel Foundation, and using a methodology developed by PwC, we aim to value the various economic, fiscal, social and environmental impacts of tourism in Cyprus.

PwC's 'Total Impact Measurement & Management' (TIMM) framework will be applied to our Mainstream Sector tourism operations, focusing on a selection of hotels in Cyprus. This is the first time the methodology has been applied to tourism. Cyprus was chosen for this project as it is a Mainstream destination and an important destination for TUI Travel.

The pilot is expected to provide new insights into the impacts, both positive and negative, of Mainstream tourism on a holiday destination and to highlight the practical implications of undertaking holistic impact measurement more widely in the industry and/or in other destinations.

All the impacts will be measured and valued, so that they can be considered alongside the more traditional financial measures used for strategic business decisions. The impact of transport to/from the hotels, hotel operations, the entire tourism supply chain within Cyprus and customer and employee spending impacts will all be within scope, covering aspects of tourism such as: working conditions, social/community benefits, local economic benefits and tax contributions. We expect to publish our learnings from the pilot in early 2015.

Commitment to human rights

Human rights are basic rights that allow individuals the freedom to lead a dignified life, free from fear or want, and free to express independent beliefs. TUI Travel is committed to the protection of human rights in compliance with applicable laws, conventions and regulations throughout our worldwide operations.

We acknowledge the UN Guiding Principles on Business and Human Rights and have many policies and initiatives in place to identify, prevent, mitigate and account for how we are addressing key human rights issues and challenges.

- Our majority shareholder, TUI AG, signed up to the UN Global Compact in September 2014, committing the Group to 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption.
- Our employee Code of Conduct commits us to respecting and observing human rights.
- Our Supplier Code of Conduct 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 as well as bribery and corruption.
- Our internal policies, practices and guidelines also cover anti-discrimination, grievance and whistleblowing procedures (see page 71), health & safety (see page 51), sustainability, anti-bribery & corruption, fraud (see page 71), conflicts of interest, data protection and security, various sanctions and third party due diligence.
- TUI Travel joined Transparency International UK's Business Integrity Forum in 2014.
- We have been named a Top Member of the Code of Conduct for the Protection of Children from Sexual Exploitation in Travel & Tourism in 2014 and our businesses support child protection projects and campaigns.
- The majority of our businesses have incorporated environmental and social minimum standards into contracts for accommodation suppliers.
- Our goal is to deliver 10 million 'greener and fairer' holidays and to encourage our hotel suppliers to implement credible sustainability certifications. Travelife is the system of choice for the majority of our businesses and we helped them to develop new, stricter criteria, including human rights (incorporating the principles of the Ethical Trading Base Code), which were launched in 2014.

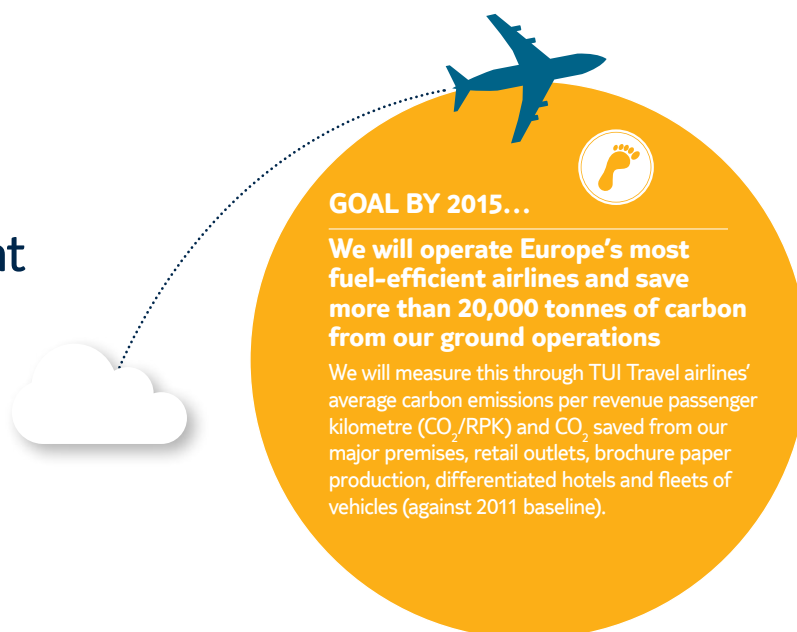
We continue to work with stakeholders to understand and respond to human rights issues better.

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

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 (CO₂/RPK) and CO₂ saved from our major premises, retail outlets, brochure paper production, differentiated hotels and fleets of vehicles (against 2011 baseline).

We are committed to reducing carbon emissions which is a key challenge for TUI Travel and the rest of the industry. We want to prepare for a low-carbon future by reducing our environmental impact and encouraging our suppliers and customers to do the same. Travel and tourism accounts for around 5% of global carbon emissions (UNEP, 2014) – half of which is attributable to aviation.

Carbon management is a critical part of our business practices, protecting the environment and saving us money now and into the future. Across TUI Travel, improved management of energy, natural resources and fuel across our operations has saved a total of £28 million in 2012 and 2013*.

We take this challenge seriously – the carbon efficiency of our airlines is one of TUI Travel's key performance indicators as a business. Our carbon management strategy covers not only aviation but also hotels, major premises, retail shops, water transport and ground transport emissions.

Our customers trust us to make their holiday experiences special. Predictable weather, personal comfort and beautiful destinations are part of the product we sell – and all of these are threatened by climate change.

We expect that national governments and international organisations will take decisive action on climate change, including putting in place fair and effective regulation around carbon. We have identified climate change-related regulation as a material issue for the Company (see page 50), and monitor upcoming regulation that could have a financial or reputational impact on the Group.

In 2014, TUI Travel airlines' total carbon emissions were 5,014,068 tonnes, a reduction of 1.7% compared to 2013. Emissions from aviation make up over 88% of our Company's carbon footprint.

We operate Europe's most fuel-efficient airlines, investing in cutting-edge aviation technology and playing an active role in advocating smarter carbon legislation.

FY14 Highlights

- CO₂ per revenue passenger kilometre (RPK) across TUI Travel airlines in 2013/14 of 69.9g (an improvement of 10.3% since 2007/08) – making us the most efficient airlines in Europe and beyond.
- TUIfly was ranked the most climate-efficient charter airline worldwide for the third year in a row and most climate-efficient airline in the world with more than one million passengers for the second year in a row in the 2014 atmosfair Airline Index.
- Thomson Airways won the Best Aviation Programme for Carbon Reduction at the 2014 World Responsible Tourism Awards.
- Arke achieved ISO 14001 certification (an international environmental management standard). TUIfly Nordic, Thomson Airways and TUIfly are also ISO 14001 certified – this certification now covers 80% of our aircraft.
- 97% of our aircraft are now fitted with fuel-saving blended winglets, reducing fuel burn by up to 5%.
- TUI Travel airlines were the first in Europe to use the new innovative Split Scimitar Winglets, reducing fuel burn by an additional 2%.
- Thomson Airways, Jetairfly and Arkefly have all taken delivery of the innovative Boeing 787 Dreamliner aircraft, which has exceptional environmental performance.

AIRLINE GHG EMISSIONS DATA FOR PERIOD 1 OCTOBER 2013 – 30 SEPTEMBER 2014 INTENSITY (RELATIVE) METRIC

	gCO ₂ /Revenue Passenger Km	gCO ₂ e/Revenue Passenger Km
TUI Travel airlines		
Arke	71.0g	71.7g
Corsair	83.4g	84.3g
Jetairfly	73.0g	73.8g
Thomson Airways	67.1g	67.8g
TUIfly	66.3g	67.0g
TUIfly Nordic	65.4g	66.1g
TUI Travel airlines (average)*	69.9g	70.6g

*When calculating the carbon-efficiency [relative or intensity metric] the focus is on 'Revenue' flights, i.e. RPK. This includes all flights conducted under TUI Travel airlines flight numbers. It excludes sub-charters flying for TUI Travel airlines; sub-charters TUI Travel airlines fly for other airlines; positioning flights (but includes ferry flights); ad hoc flights such as for training, technical, all-cargo.

80%

Arke, TUIfly Nordic, Thomson Airways and TUIfly are all ISO 14001 certified – covering 80% of our aircraft

- We have partnered with Boeing for the next phase of their ecoDemonstrator Programme, which aims to accelerate the development and testing of technologies to improve the environmental performance and sustainability of commercial airplanes. Testing of the TUI-branded ecoDemonstrator 757 Flight Test Airplane will commence in 2015.
- TUIfly Nordic has joined the Nordic Initiative for Sustainable Aviation (NISA), which brings together key players from the Nordic aviation sector to push forward the development of sustainable aviation fuels.
- Jetairfly and Arke introduced electric cars airside at Amsterdam's Schiphol Airport and Brussels Airport.
- Jetairfly won the Environment Award at the 2014 Brussels Airport Aviation Awards.
- Carbon emissions have been reduced by 19% year-on-year across TUI UK & Ireland's retail estate and brochures.

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: CDP (formerly Carbon Disclosure Project), Sustainable Aviation Fuel Users Group (SAFUG), Sustainable Aviation in the UK, Aviation Initiative for Renewable Energy in Germany (aireg) and AlgaePARC in the Netherlands.

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.

TUI Travel is disclosing carbon dioxide equivalent (CO₂e) data for both its absolute and relative emissions. CO₂e refers to CO₂ and the other five Kyoto GHGs – (Methane (CH₄); Nitrous oxide (N₂O); Hydrofluorocarbons (HFCs); Perfluorocarbons (PFCs); and Sulphur hexafluoride (SF₆)).

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 CO₂e and CO₂ data for FY2014.

* An approximate figure of Group savings that have been tracked, gross of any upfront investments required to achieve those savings in 2012 & 2013. Part of previously identified cost savings.

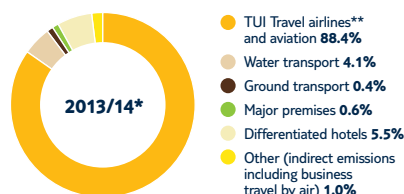
**PwC (the Company's auditors) has verified the carbon intensity metrics displayed in the table on page 28 (PwC also assure our airline EU Emissions Trading Scheme data). To read our airline carbon data methodology document and PwC's Assurance Report in full, please visit:

www.tuitravelpc.com/sustainability/carbon

GLOBAL GHG EMISSIONS DATA FOR PERIOD 1 OCTOBER 2013 – 30 SEPTEMBER 2014 ABSOLUTE FIGURES

Source	CO ₂ [t] (tonnes of carbon dioxide)	CO ₂ e [t] (tonnes of carbon dioxide equivalent)	
Total Scope 1 emissions	5,865,385	5,927,861	Scope 1 covers direct emissions
Total Scope 2 emissions	315,201	315,374	
Other (Scope 3) emissions	62,206	62,391	
Grand total	6,242,792	6,305,626	Scope 2 & 3 covers indirect emissions

BREAKDOWN OF TUI TRAVEL'S CARBON FOOTPRINT



* Carbon footprint covers Scope 1 (direct emissions) and Scope 2 & 3 (indirect emissions).

**The scope of the TUI Travel airlines carbon data is as follows: for the absolute fuel burn and carbon data calculations, all flights conducted under each airline's flight number including sub-charters flown by TUI Travel airlines but excluding sub-charters the TUI Travel airlines fly for other airlines are included in the scope.

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.

Responsible Leadership is one of our core values and commits us to making a positive impact on society, celebrating local differences and contributing to a better world. Our colleagues need to be enthusiastic and knowledgeable about TUI Travel's sustainability commitments and the role they play in delivering them.

Today's employees are not only motivated by money and status but also by the knowledge that their employer's values align with their own. The evidence shows that employees who are engaged in sustainability – who are encouraged to share their experiences with others – are happier and more productive at work. Values matter even more to the leaders of the future; 80% of 13-25 year olds want to work for a company that cares about its impact on society (Forbes, 2014).

We want our colleagues across the world to understand, and bring to life, the TUI Travel values and know that they can take action in their day-to-day lives. Responsible Leadership is increasingly embedded into how we measure behaviour and performance across the Group.

We communicate regularly about the issues, successes and challenges of sustainable tourism to our colleagues. Across the Group, sustainability information can be found in recruitment materials, intranets, newsletters, inductions, blogs by senior managers, short films and e-learning modules.

FY14 Highlights

- Sustainability awareness – raising initiatives were implemented across the Group, such as TUI Nordic's sustainability training video for holiday advisers and Specialist Holidays Group's sustainability week with a different theme for each day.
- Our colleagues united to protect holiday destinations by taking part in the Travel Foundation's Big Holiday Beach Clean for 'Make Holidays Greener' month in July. Over 700 people took part, cleaning 30 plus beaches and collecting 400 bags of rubbish (over 35,000 pieces).
- We have set up networks of sustainability champions, made up of people who know how to inspire change in their business area. For example, TUI Nordic has a network of ISO-coordinators who helped to implement ISO 14001, TUI Deutschland has Environmental Ambassadors who meet regularly, TUI Nederland has sustainability champions in each product department and TUI UK & Ireland has champion networks in place in retail, head office and overseas.
- Training programmes were rolled out across retail such as a sustainability module within TUI UK & Ireland's new online induction.
- Community volunteering programmes are one of the ways we engage our people in sustainability, enabling them to see projects in action and develop their own skills. Many of our businesses allow colleagues one day per year to volunteer for a charity in their local area. For example, 80 colleagues from Bedsonline Asia and Hotelbeds in South East Asia travelled to San Remigio, in the Philippines, to help rebuild a school devastated by Typhoon Haiyan.
- TUI Travel was shortlisted for a 2014 HR Excellence Award for embedding the Sustainable Holidays Plan throughout our Company.

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 £2 million. Peter Long, Chief Executive of TUI Travel, was appointed President of the FHA on 1 October 2013.

www.fhaonline.org.uk



700

In July, over 700 people dedicated their time to help clean up beaches in 20 destinations around the world

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.



TUI Travel's vision is to make travel experiences special. Customers are at the heart of everything we do, and that means we must involve them in order to become a more sustainable business and help drive a more sustainable industry.

Our customers are critical to delivering some of our most important sustainability goals. We need to make sure that clear links are made between sustainability and the holiday experiences they value, and encourage them to take action in a way which is engaging and memorable. We have found a positive correlation between more sustainable holidays and customer satisfaction.

According to the research we undertook in 2012, which covered 3,000 people in several of TUI Travel's key source markets, modern mainstream consumers are more engaged with sustainability compared to traditional mainstream consumers:

- One in two would be willing to book a more sustainable holiday if available
- One in two want their holiday company to be clear about what they do to make their holidays more sustainable
- They are more interested in social and community issues than traditional mainstream consumers
- The sustainability aspects that interest them most in the destination are: fair working conditions; learning about the country and the people; and changing their behaviour to help the environment.

Sustainability is not a primary driver of consumer preference for mainstream holidays – customers are more interested in price, quality, food, service and unique destinations. The good news is that these are exactly the aspects of our holidays that sustainability helps to support.

Minimising waste in energy and resources helps us deliver value for money. Hotels that treat their people and the local environment with consideration are developing a quality product with friendly staff. And beautiful, unique destinations rely on the tourism industry committing to protect them.

FY14 Highlights

- We are encouraging holidaymakers to engage in sustainable tourism through our kids' club activities, school education initiatives, customer donation schemes and sustainable tourism campaigns.
- Since 2011, over one million UK school children have participated in the Eco-traveller programme which teaches them how to make a difference on holiday.
- Over £1.4 million raised through the World Care Fund customer donation scheme. The funds are channelled into projects that help address the environmental impact of tourism, and support communities around the world.
- Fritidsresor, our brand in Sweden, was ranked the most sustainable travel company in Sweden in the 2014 Sustainable Brand Index and by the Differ survey.
- Across the Group our businesses are working to reduce brochures and to use digital platforms throughout the customer journey. The TUI Digital Assistant app has now been rolled out in Austria, Germany, the Nordics, Switzerland and the UK and has been downloaded over one million times.
- Our Mainstream businesses in Germany and Austria have partnered with myclimate to offset the carbon emissions from all customer rental cars from April 2013. To date, over 26,000 tonnes of CO₂ has been offset via projects in Turkey and China.

1 million

Number of UK school children who participated in the eco-traveller programme (since 2011)



GIVING BACK

The Intrepid Foundation is a not-for-profit organisation and has distributed over AU\$3.5 million to more than 70 non-government organisations since 2002 (matching customer donations dollar for dollar), contributing to health care, education, human rights, child welfare, sustainable development and environmental and wildlife protection.

STRATEGIC REPORT

How we do it: Our people

JACKY SAYS "THANK YOU..."

Our vision is to enable our colleagues to be better connected, more in touch and in tune with our customers, whilst delivering personalised holiday experiences that will always be remembered.

This year our focus in HR has been on developing a consistent, effortless and engaging experience for our colleagues, which in turn will be transferred to our customers. Once again, our colleagues have shown great passion and commitment to ensure TUI Travel delivers holiday experiences that satisfy the ever-changing needs of our customers.

I would like to say thank you to our people for bringing the TUI Travel values to life and making it such a great place to work.

Jacky Simmonds

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.

**Engaging and involving our colleagues**

Although TUI Travel is made up of a diverse and unique range of brands and businesses, they share many similarities due to a shared vision and common values.

Nurturing these values is key to our strategy. Following the first TUI Travel Group-wide global opinion survey that took place in September 2012, we identified three key areas to strengthen the engagement of our colleagues:

- **Pride:** Colleagues told us that they were looking for a better opportunity to identify with TUI Travel as a great place to work
- **Trust:** We aim to build trust right across our organisation by giving people more opportunities to get involved and delivering more targeted and transparent communications
- **Opportunity:** Our colleagues asked us for better accessibility to opportunities that would enable them to grow and develop within TUI Travel. Colleagues wanted to develop a career within the Company rather than viewing their role as just another 'job'

Over the past year we have continued to address these key areas through a number of Group-wide initiatives, detailed below.

Pride – the introduction of an employer brand

People told us that TUI Travel was such a great place to work, they felt we should use the strength of our scale and size when trying to attract and retain people within the organisation. We also wanted to find a way to express what binds us today in a common and shared colleague experience no matter where you work in TUI Travel. To capture this, we have introduced an employer brand that describes, in a clear way, the experience you will have working for the Group. It is centred around the three key pillars described on the following page.

1



2



3



- 1. PETER LONG**
- 2. WILLIAM WAGGOTT**
- 3. JOHAN LUNDGREN**

For Executive biographies go to page 64

4. 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.

- **Winning Together:** we are passionate about our work; we inspire and respect each other
- **Freedom to Shine:** our global businesses are fast moving, dynamic and rich in development opportunities
- **Pushing Boundaries:** we never stop looking ahead, seeking new ways to delight our customers and grow our business. We embrace technology, innovate and adapt at speed, staying true to our values.

Since being developed, these pillars have been used in a number of recruitment campaigns across the Group, and have provided a global identity for employees across the world for the first time.

Trust – involving employees in the way we work

We've given over 300 of our colleagues the opportunity to get directly involved in the work to transform our business.

Many more colleagues are indirectly involved through focus groups, surveys and interviews, giving a broad representation of people a chance to have their say in making our business more innovative, future-proof and effective.

With this ongoing dialogue at all levels, we are building trust and bringing the Company closer together. Beyond this, we understand trust as the experience of our colleagues in their daily work with their leaders and co-workers. We have put a great deal of emphasis on the ongoing, clear communication of our strategy and achievements as a Company, and will continue to invest in the development of our leaders at all levels.

Opportunity – global jobs and learning opportunities

In July 2014, we launched an internal careers portal to increase internal visibility of job vacancies across parts of TUI Travel for the first time. The portal is currently being developed further to give colleagues access to an even wider range of opportunities across the globe.

We have also launched a Global Learning Management System which will give colleagues worldwide access to state of the art learning once it is fully implemented.

The portal encourages colleagues to take responsibility for their own development and is multi-lingual, accessible via the internet (enabling learning anytime, anywhere, via laptop, iPad or smartphone), and assists collaboration by supporting the transfer of best practice across the Group. The Learning Management system has been developed to facilitate a variety of different learning needs: personal and leadership development, compliance/mandatory training and functional skills and knowledge. As well as being embedded in the Finance Academy with over 2,000 people actively using it, the Academy has now been embedded across our UK Retail and destination teams.

In January TUI Germany implemented Magellan, a software programme allowing employees to be trained on a variety of topics including automated contract generation, employer's reference creation and feedback sessions. More capability will be progressively added to the software to cater for all areas of the business.

We are very interested in finding out how these initiatives have worked to shift perceptions across the Group and will capture this during the Your Voice opinion survey in 2015.



5. 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.

6. 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.

7. 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.

STRATEGIC REPORT

How we do it: Our people

continued

Digitally enabling our people

Our Digital Transformation journey began in 2013, and has become a key feature of our strategy to become a truly consistent, effortless and engaging team.

As part of One Mainstream's digital transformation, our vision is to create a single environment that is available to our global colleague base – anytime, anywhere, any way. This includes providing instant access to customer data, communications, colleague data, social interaction and working practices and improving collaboration and efficiency in how we work and increasing the awareness in expertise and knowledge sharing. In doing so, we will empower our colleagues to become brand ambassadors and encourage them to fully engage with our customers and their colleagues.

In our Mainstream and Specialist & Activity Sectors, we have been piloting schemes allowing our reps in resorts to support customers through iPads. This ensures colleagues can engage with customers over social media prior to and during their holidays, and thereby further improving customer service levels. We have had great feedback following these pilots and are looking into rolling it out across more of the business.

Real time communication and collaboration amongst colleagues has been facilitated this year by installing an instant messaging tool (Lync) for teams based in the UK & Ireland and France. This is both an efficient and informative tool and allows people to make contact quickly, easily and simply.

Investing in our leaders

At TUI Travel, we know that we need talent and strong leadership, facilitated by development opportunities, in order to deliver our strategy and cement the business's future. Some of the key programmes to support these opportunities are as follows:

For high-potential senior leaders, there is our **Global High Performance Leadership** programme which focuses on their development whilst equipping individuals to support our commercial business growth and strategy. Sponsored by the Deputy Chief Executive and MD of One Mainstream, Johan Lundgren, the programme aims to enhance strategic thinking and leadership skills, creating the foundation for more active collaboration across the Group.

The programme is run by the prestigious IMD business school in Switzerland, where participants solve real strategic business priorities in a learning environment which results in tangible improvement plans.

We also have a development portfolio for colleagues in the earlier stages of their career who have been identified as high potential and/or successors to commercial senior leadership roles in the future.

Perspectives, sponsored by Joan Vilà, MD Accommodation & Destinations Sector, takes 'Rising Stars' on a journey to widen their understanding of the Group strategy and our expectations of future leaders. The programme helps drive the mobility of talent across the Group, supporting our culture of global leadership.

Horizons, sponsored by David Burling, MD UK&I Mainstream, focuses on high-potential senior leaders who have been identified as successors to more senior roles. The programme takes participants through a business-led initiative to identify ways we can meet our business challenges whilst also developing their personal leadership styles at all levels.

To support all managerial development, we have introduced two new leadership programmes:

Leadership Essentials – focuses predominantly on self and people leadership, how we expect leaders to behave in TUI Travel. It is designed for those who have just commenced their leadership journey to embed the behaviours which encourage and bring out the best in people.

Leadership Evolution – an advanced programme focusing on people and business leadership. This is for more experienced managers, enabling 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 Group-wide development initiatives, we also offer bespoke internal and external mentoring and coaching.

Through the People Performance management process in Germany, 70 leaders had the opportunity to attend a development centre to build on their leadership potential, where they receive feedback from external consultants on their progress. By creating a learning environment where people can demonstrate high performance, we are able to identify potential, and in turn give them more responsibility.

In Germany we offer selected colleagues an opportunity to take on project-based work with a global perspective over a two-year period. Employees can take on the role of a People or Operational Leader, where they cover topics such as working in an international organisation, digital transformation, dealing with ambiguity, building resilience and change management. Part of the selection process to determine if people are ready to attend the two-year programme is successful completion of a one-day Development Centre, aligned to the requirements of the international Group development programmes (Perspectives and Horizons). All participants in this talent pool have the opportunity to apply for these international Group development programmes.

TTG 30 UNDER 30

This year, three TUI Travel colleagues have been recognised as top up-coming talent in the Travel and Leisure industry. Benjamin Dean (International Graduate), Bart Quinton Smith (Analyst, TUI UK & Ireland) and Oliver Bowden (Senior Retail Manager, TUI UK & Ireland) have all been selected by TTG as members of the 'Tomorrow's travel leaders: 30 under 30' scheme, which identifies and selects the brightest young talent in the industry.



In association with



Learning conferences have also been established as an instrument for the development of talent and management. This initiative was started by TUI Germany and is now a Group-wide measure in Mainstream Germany, where colleagues share experiences and understanding. The event covers strategic topics that underpin our business success and the satisfaction of our employees.

There has also been a series of seminars run for our leaders. An example of one of these seminars, 'Conflict management in change', was devised to ensure we are prepared for upcoming change processes as well as dealing with resistance to change. Around 100 leaders have participated so far.

Developing our talent pipeline

The International Graduate Leadership Programme continues to attract, develop and retain high-quality graduates who are earmarked to become our future senior Commercial Leaders.

To reflect the increasing globalisation of our business, we focus on attracting graduates with an international mindset and a professional approach seen as suitable for our fast-paced, ever-changing environment. There are two small intakes annually, another eight graduates joined our team in September 2014 from France, India, Spain, Croatia, Germany, Romania, the Netherlands and Belgium. There is a mentoring programme in place on the Scheme which provides support throughout the 18-month duration, and senior leaders commit to meeting and helping graduates with specific assignments. 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 four years.

Since 2010, 41 graduates have joined the business. They complete four business placements, a five-week overseas placement, attend four one-week training blocks and participate in a Group project to look at a business challenge. Over 80% of these graduates are still in the business. We have been recognised in Germany by the online career platform for students, graduates and young professionals, 'Absolventa' – who have commended us for having a career-enhancing and fair International Graduate leadership programme. Also, in TheJobCrowd top Companies for Graduates to work for, we have been placed 19th, 12 places higher than our 2013 ranking, with some excellent feedback being given by our graduates.

In TUI Germany we deliver an intern programme which forms part of 'Adelante', an initiative started by the Chamber of Industry and Commerce in Hanover to take action against the unemployment of young people in Spain. In April 2014 two young Spaniards began their three-month internship and from September they will commence a year-long internship.

In August and September 2014, 172 young people began their first professional job through TUI Germany's retail, airline and TBS divisions. Over the next three years they will have on-the-job training with the aim of becoming merchants in tourism (travel agents), merchants in dialogue marketing, office clerks and aircraft mechanics. In addition to their practical training, TUI Germany will also provide academic vocational schooling, aiming to give young people the best possible start in their careers.

In June 2014, we launched a series of workshops for colleagues across TUI Germany, TUIfly, TUI Business Service, TUI 4U, TUI Service, TUI Aktiv, TUI AG, Robinson Club and TLT Service. These workshops have been designed in an interactive and innovative way to discuss exciting, current and forward-looking strategic issues. The people in attendance found it extremely useful to debate current issues as well as network across multiple companies and learn more about the culture at TUI Travel. The events took place in different locations and were sponsored by senior leaders. They will continue throughout the next financial year.

In the UK & Ireland we have a leading employer apprenticeship programme. We continue to partner with the Skills Funding Agency and City & Guilds to deliver vocational training through our in-house accredited programmes department. We deliver over 400 qualifications every year including apprenticeships, NVQs and Institute of Leadership & Management Certificate and Diploma programmes. The programmes recognise and support all aspects of our business and provide qualifications ranging from Customer Service to Chefs and Sales to Airline Operations. The UK&I team has supported the delivery of these programmes in the Specialist & Activity Sector of the JCA business and Specialist Holiday Group (SHG) finance. The expertise of the team has supported both of these areas to attract, retain and develop talented candidates.

To support succession planning programmes, we have launched the Institute of Leadership Management Qualifications Level 2 and 3 and currently have 82 colleagues on the programme. These programmes are designed to support and develop talented Sales Advisers and Assistant Managers, who undertake assignments and are offered opportunities for secondment, which in turn aids the Group with succession planning.

We also have a placement scheme, with eight students joining the 2013/14 programme and another seven starting in 2014/15. The placement students work in different areas of the business including Product, Early Trading, Late Trading, Cruise Trading, E-commerce and Purchasing. There is also a School Leaver Scheme, which takes students that have finished their 'A-Levels' and, rather than going to University, join TUI Travel. This is a two-year programme where they work in the same areas as the placement students and eventually will aim to take on the same formal roles. This programme is in its third year now and is working well. We are working with City & Guilds to develop a specific qualification that can be awarded to those who complete the programme.

STRATEGIC REPORT

How we do it: Our people

continued

In our Specialist & Activity Sector great progress has been made to develop a formal graduate sales programme. This has been designed to improve the sales capability within this sector, building on the agility of the Specialist & Activity sales model, which can move talent across portfolios as required, whilst ensuring future managers are given development opportunities early on.

The Navigator programme is one which is specially designed for colleagues who have been identified as young talent within Specialist & Activity, and forms part of the Sector's succession planning. It has now been rolled out to European-based colleagues within the Specialist & Activity Sector, with plans to deliver this to colleagues based in the US, in the future.

Global mobility and collaboration

In December 2013 we announced the transformation of our Mainstream Sector into One Mainstream. This was a turning point for opportunities in collaborative working practices, encouraging a global best practice model as well as global mobility, and driving a big picture mindset.

An example of this collaboration can be seen in our Digital Transformation model, where we have created centres of excellence (hubs) in which digital solutions are developed once and deployed to all Source Markets. The success of the TUI Digital Assistant app pays testament to what can be developed within these multi-locational, collaborative hubs, and it has now been rolled out into five Source Markets.

Two initiatives have been developed with the specific aim of building the global mobility of our colleagues across the Group, and furthering their career development.

The first is a new global resourcing function, focusing on senior leadership and internal talent pools. This helps to drive international moves and internal promotion across the business, which forms part of our HR strategy, whilst the second is the development of 'talent panels', to monitor talented individuals so the business has an easy way to input into talent discussions.

A team of individuals – strength in diversity

We have a global workforce with a wide range of different cultures and backgrounds, which gives depth and breadth of experience and understanding – a team of diverse individuals, all of whom contribute to our market leadership.

Illustrating this diverse workforce, 57 of our 210 senior leaders based across 24 countries are female. Across our total workforce, approximately 61% of all employees and 30% of managers are female.

We are clear that we do not 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.

'Spotlight' is a new programme which allows us to identify and target specific groups who are under-represented in the Group.

Rewarding our colleagues and supporting their wellbeing

When it comes to making travel experiences special, we recognise that it is the dedication of our colleagues that makes the difference and we strive to make sure they 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 local market practice.

In the UK there continue to be significant changes to pension legislation following the implementation of pension auto-enrolment in 2013. We are working closely with our partners to ensure that we can adapt to facilitate these changes as they take effect.

The health and wellbeing of our colleagues is paramount and we have built upon the work started by TUI UK & Ireland and TUI Germany by providing wellbeing programmes and initiatives for our employees.

TUI TRAVEL JOINS THE TOURISM INDUSTRY COUNCIL

TUI Travel has just embarked on a fantastic new opportunity to shape the development of the UK tourism industry. Along with 21 other leaders in the industry such as easyJet, Expedia and VisitBritain, it has joined a partnership with the Government. Together they will become the new Tourism Industry Council, using their expertise to develop skills and share best practices whilst enabling the tourism industry to innovate and grow. This is the first time that such a partnership has been set up and further cements our role as a business leader within the UK. Peter Long commented:

'The importance of outbound tourism in the UK can be overlooked at times but it is a significant part of the industry. We alone take over five million Britons on holiday every year directly employing some 20,000 people in the UK. I'm therefore delighted to be part of the Council and I look forward to playing my part in the development of our industry now and in the years to come.'

The partnership follows a recent government drive to increase the availability of apprenticeships within the country. It is also, significantly, the first time that there has been a cross-government council including both the Tourism Minister and the Minister for Skills and Enterprise.



Our apprenticeships continue to win awards!

1. **Samantha Reed** was a finalist and highly commended at the TT G 'Travel Seller of the Year'
2. **Sophie Page** was a recent City and Guilds 'Medal for Excellence' winner
3. **Thomas Newby** was a regional finalist and highly commended in the National Apprenticeship Award

STRATEGIC REPORT

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 55](#)) and growth roadmap.

	STRATEGY	STRATEGIC DRIVERS	GROWTH ROADMAP TARGET
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 target a unique holiday mix of 76%, as a proportion of total Mainstream Sector holidays by 2017. We also target continuous improvement in customer satisfaction.
	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 target a direct distribution mix of 81% and an online distribution mix of 50% in our Mainstream Sector by 2017.
	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.
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 target underlying operating profit growth of between 8% to 10% per annum between 2012 and 2017*, including delivery of £9m business improvement savings during the five year period.

71%

of our Mainstream holidays were unique in 2014

79%

Customer satisfaction score in UK, Nordics and Germany combined during 2014

KEY TO STRATEGIC DRIVERS



CONTENT



BRANDS & DISTRIBUTION



TECHNOLOGY



GROWTH & SCALE



PEOPLE

See more about our strategic drivers on page 14

PERFORMANCE

In the year, we increased the unique holidays mix by three percentage points across the Mainstream Sector as a whole to 71% with improvements in all key source markets. Customer satisfaction for the UK, Nordic region and Germany combined remained at the record levels achieved in 2013, with continued strong performances by our unique brands.

To measure our progress, we have two distribution KPIs: (i) direct distribution mix; and (ii) online distribution mix.

Direct distribution mix increased to 68% driven by all major source markets. The improvement in direct distribution was driven by the online channel which has increased by three percentage points in 2013 to 38%. Within this, the UK improved by four percentage points to 51%, the Nordic region improved by three percentage points to 70% and Germany improved by three percentage points to 11%.

The overall Mainstream overhead remained below 5% in 2014. The One Mainstream programme is continuing to deliver significant benefits and operational efficiencies across our source markets.

During 2014, the Specialist & Activity Sector saw a mixed performance from its various businesses, delivering a broadly flat result on a constant currency basis. We saw an improved result from our North American Education and North American Specialist businesses. Sport benefited from weak year-on-year comparatives as well as the Ashes and 2014 FIFA World Cup tournament. However, these results were offset by soft trading in the Adventure and Marine businesses.

KEY PERFORMANCE INDICATORS

Unique holidays mix as a proportion of total Mainstream package holidays¹

2014: 71% | 2013: 68% | 2012: 65%

Customer satisfaction for key Mainstream source markets

2014: 79% | 2013: 79% | 2012: 77%

¹ Unique calculation for 2014 and 2013 updated to include Airtours brand and long-haul destinations not previously included within packages

Direct distribution mix as a proportion of total Mainstream package holidays

2014: 68% | 2013: 66% | 2012: 65%

Online distribution mix as a proportion of total Mainstream Sector package holidays

2014: 38% | 2013: 35% | 2012: 33%

Mainstream overhead as a % of revenue

2014: 4.4% | 2013: 4.6% | 2012: 5.2%

Underlying operating profit

2014: £40m*

2013: £41m

68%

of our Mainstream holidays during 2014 were distributed directly by us to the customer

38%

of our Mainstream holidays during 2014 were purchased online

STRATEGIC REPORT

How we measure it: Key performance indicators (KPIs)

continued

LEVERAGING OUR GLOBAL LEADERSHIP POSITION IN ACCOMMODATION WHOLESALER	STRATEGY	STRATEGIC DRIVERS	GROWTH ROADMAP TARGET
INVESTING IN ACCOMMODATION OTA	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 target underlying operating profit growth for Accommodation Wholesaler of between 15% to 20% per annum between 2012 and 2017*.
FOCUS ON FREE CASH FLOW GENERATION, ROIC AND OPERATIONAL EFFICIENCY	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 target growth in traffic and roomnights in our existing OTA brands LateRooms, AsiaRooms and Malapronta.
PIONEERING SUSTAINABILITY CHANGE IN OUR SECTOR	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 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 the end of 2015 (against a baseline of 2008). See Sustainable development section.

21%

growth in Accommodation Wholesaler underlying operating profit in 2014*

£12m

business improvement savings delivered during 2014

KEY TO STRATEGIC DRIVERS



CONTENT



BRANDS & DISTRIBUTION



TECHNOLOGY



GROWTH & SCALE



PEOPLE

See more about our strategic drivers on page 14

PERFORMANCE

We had another strong performance in Accommodation Wholesaler in 2014, with 21% growth in underlying operating profit at constant currency rates. TTV grew by 15% from £1.655bn to £1.899bn in 2014, with 16% growth in roomnights. Top-line growth was driven primarily by continued expansion in Asia and Latin America.

Traffic and roomnights decreased by 6% and 11% respectively in the year, driven by a planned reduction in unprofitable marketing spend in AsiaRooms and pressure on conversion rates as customers increasingly switch to mobile devices. We expect this trend to reverse as we continue to improve our mobile capability.

ROIC performance was strong, but slightly lower than 2013 due to the impact of foreign exchange translation and an expected increase in the underlying effective tax rate, driven by a change in the geographic mix of profit.

We generated a cash conversion rate of 85% in 2014, significantly in excess of our target of 70% of profit before tax.

We delivered £12m of operational efficiency savings through the business improvement programme in the last 12 months. The programme is now largely complete.

Our airlines' per passenger carbon emissions reduced year on year, from 70.7g CO₂/RPK in 2013 to 69.9g CO₂/RPK in 2014, a 10.3% reduction against our 2008 baseline year. This was achieved through investment in new fuel-efficient aircraft, operational efficiencies, fuel conservation activities and capacity amends.

KEY PERFORMANCE INDICATORS

Growth in underlying operating profit*

2014: +21%

Growth in roomnights

2014: +16%

Decrease in traffic

2014: -6%

Decrease in roomnights

2014: -11%

ROIC

2014: 14.6% | 2013: 14.8% | 2012: 12.2%

Cash conversion¹

2014: 85% | 2013: 93% | 2012: 78%

Business improvement programme

2014: £12m

¹ Free cash flow excludes net aircraft pre-delivery payments and movements in restricted cash. 2013 cash conversion restated to reflect the adoption of revised IAS 19 'Employee benefits'

Carbon efficiency, measured through TUI Travel airlines' average carbon emissions per revenue passenger kilometre (g CO₂/RPK)

2014: 69.9g CO₂/RPK

2013: 70.7g CO₂/RPK

2012: 73.0g CO₂/RPK

14.6%

Strong ROIC performance in 2014

85%

cash conversion during 2014

STRATEGIC REPORT

What are the risks? Principal risks

Risk Governance

- Successful management of existing and emerging risk 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 identify and 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 to drive long-term value. 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, which is aligned to and embedded within our business planning cycle, 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 willing to take to achieve its strategic objectives.

However, 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 challenged and debated rigorously.

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 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 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 right reward system to drive an appropriate culture of 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 and internal control system 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 receives 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). It is chaired by the Chief Executive and comprises the full membership of the GMB supported by key members of the risk and control community. The GRMC has two key responsibilities:

- to ensure that an effective risk management process is operating throughout the organisation; and
- 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 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. 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 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 management has understood the risks and that mitigation 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 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.

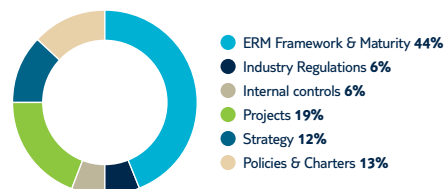
Risk Management Process

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.

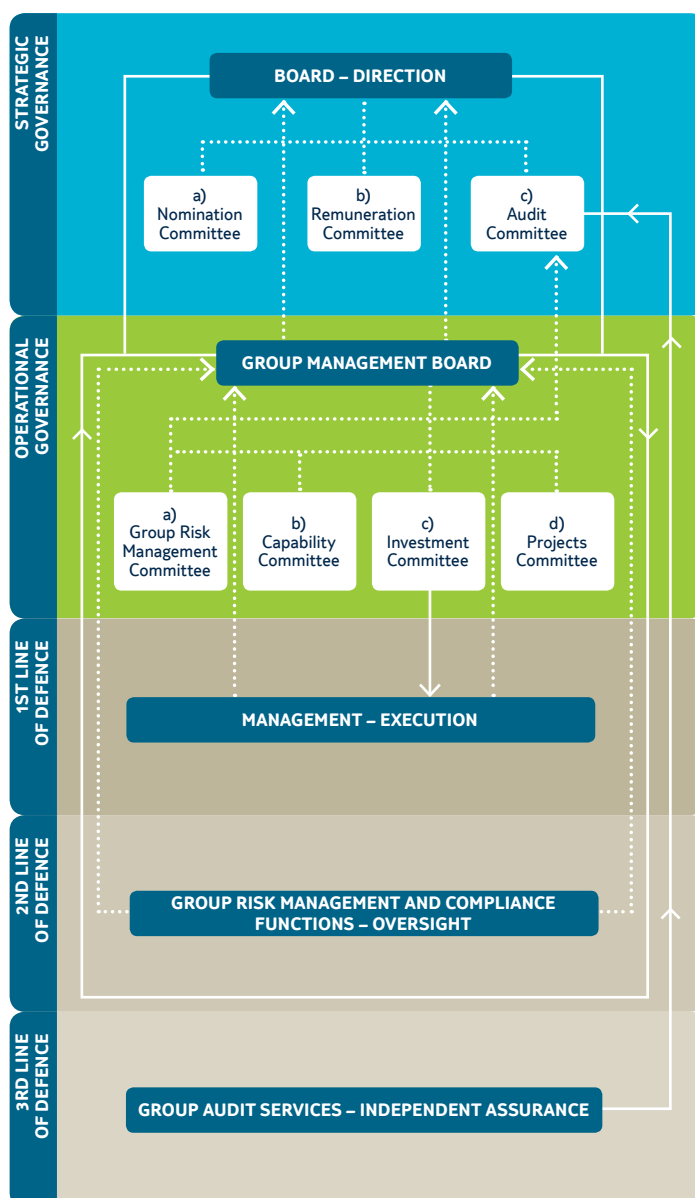
The Group Risk function applies a consistent risk methodology across all key areas of the business. This is underpinned by risk and control software which reinforces clarity of language, visibility of risks, controls and actions and accountability of ownership. Although the process of risk identification, assessment and response is continuous it is consolidated, reported and reviewed by senior management on a quarterly basis.

This is considered by the GRMC 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.

TOPICS PRESENTED AND DEBATED AT THE GRMC DURING THE YEAR



Risk Governance Framework



STRATEGIC REPORT

What are the risks? Principal risks

continued

Risk landscape



Principal risk table

The ordering in the table below 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. It does, however, highlight the change in the Group's risk profile relative to the changes experienced within the environment in which we operate (Net Risk Movement) and in consideration of its willingness to take on risk (Risk Appetite).

RISK CATEGORY	NATURE AND EXTENT OF RISK	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. Consumer research and booking preferences are constantly evolving (from offline to online, and from desktop to mobile and tablet) with booking moving closer to 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 (PROACTIVE) We are passionate about anticipating customer desires and are not afraid to be innovative and make brave decisions to ensure we remain relevant to our consumer preferences. NET RISK MOVEMENT ▼ <i>"We have made significant progress to enhance our offering of unique end-to-end experiences to our consumers. This however has been off-set by evolving consumer desires & expectations. This inspires us to invest in innovation and strive continuously to be one step ahead"</i> KEY RISK INDICATORS INCLUDE • Competitor activity • Customer net promoter scores • Brand performance	GROUP-WIDE • 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. TOUR OPERATOR • Leveraging our One Mainstream structure to enhance the portfolio of unique and exclusive products designed to increase our competitive advantage. • Reviewing continuously our existing concept portfolio adapting where appropriate for different source markets and opening new destinations. • Investing in a common platform across One Mainstream that will provide our customers with real time, personalised, and consistent services across any of the channels in which they choose to interact with us. • Developing the strong brand portfolio of tailor-made products and services within our Specialist businesses and reviewing opportunities to extend it into new markets. • Focusing on being online throughout the whole of the customer journey - from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media. • Launching a range of successful applications (e.g. the TUI Digital Assistant app and Crystal Ski Explorer). ONLINE ACCOMMODATION • Reviewing closely our offer to ensure that we have a wide variety of product, in terms of quality, destination and budget. • Developing continuously our digital content ensuring it is clear, relevant and well presented in order to capture the market and ensure customer loyalty and repeat customers. • Updating and upgrading 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.

STRATEGIC REPORT

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	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 (PROACTIVE) We are passionate about innovation and adding value to our customers and look actively for opportunities that might strengthen our strategic and tactical agility. NET RISK MOVEMENT ▼ <i>"We are constantly seeking new opportunities to add value to all our stakeholders supported by a strengthened project management approach ensuring we optimise our ability to deliver maximum benefits"</i> KEY RISK INDICATORS INCLUDE • Project status • Common platforms vs. local • COSO maturity by business	GROUP-WIDE • 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 continued 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. • Strengthening our project and programme management competency and capability to deliver change on time, on cost and on scope. • Strengthening business continuity management in our various businesses to build resilience into our operations. TOUR OPERATOR • Continuing to build on the foundations of One Mainstream which, implemented last year, allows us to take full advantage of our scale and buying power and delivers more effective operations without compromising customer experience. • Increasing controlled distribution thereby reducing third party costs and enabling a direct relationship with our customers. • Continuing to expand our portfolio of new concept stores, which incorporates digital elements and inspiration in recognition of the fact that retail remains an important part of the booking process. • Focusing on developing a personalised service through implementing a system 'Connect' which allows customer information to be shared across multiple booking platforms. • Maximising technological efficiencies through the consolidation of finance and reservation systems across multiple source markets and inter-linking systems to ensure a seamless customer experience while also generating more robust and reliable management information. • Continuing to deploy the Dreamliner across One Mainstream giving our customers a superior flight experience and allowing us to offer new long-haul destinations and more capacity to existing ones. ONLINE ACCOMMODATION • 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. • Extending our Bedsonline customer base (accommodation provider) through effective partnering with easyJet. • Planning to drive superior growth by developing new distribution channels and new customer segments in this market.

RISK CATEGORY	NATURE AND EXTENT OF RISK	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 (OPEN) We are willing to consider all markets, acquisitions and investments to drive long-term sustainable growth value. NET RISK MOVEMENT ▲ <i>"In light of the ongoing challenging trading environment in Russia and Ukraine we took the decision to make an impairment of £28m against loans to our joint venture in the fourth quarter"</i> KEY RISK INDICATORS INCLUDE • Market analysis • Partner assessment • Integration post acquisition	GROUP-WIDE • Coordinating M&A activity at a Group level to identify and optimise the best growth opportunities available to the business. TOUR OPERATOR • 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. • Strengthening our position in the Indian market through increased shareholding in Le Passage to India (inbound and MICE destination management services) and TUI India (domestic and outbound tour operator). ONLINE ACCOMMODATION • Reviewing continuously our strategy for targeting emerging markets, in particular in Africa, Asia and Latin America. • Developing our presence in the Asia Pacific with AsiaRooms.com and in Brazil with MalaPronta.com and attracting new customers through increased brand awareness.

STRATEGIC REPORT

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
OPERATIONAL		
GLOBAL FINANCIAL FACTORS STRATEGIC DRIVERS  GROWTH & SCALE	CONTEXT 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. 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. 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 the Group's after-tax earnings. APPETITE (CAUTIOUS) We are careful to ensure as stable and as predictable an environment as possible in relation to FX and fuel, tax, funding and liquidity. NET RISK MOVEMENT  <i>"We continue to manage our global business through challenging economic times. This has given us the opportunity to build resilience in to our business and strengthen our day-to-day operations"</i> KEY RISK INDICATORS INCLUDE • Compliance to policy • Market intelligence • Media exposure	GROUP-WIDE • 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. During the year we refinanced our banking facilities with the signing of a new £1.4bn bank credit facility. • Maintaining high-quality relationships with the Group's key financiers and monitoring compliance with the covenants contained within our financing facilities.
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 (OPEN) We are willing to consider options which add value to our customers and secure and improve the flexibility, resilience and attractiveness of our business model. NET RISK MOVEMENT  <i>"We are operating in an increasingly dynamic environment. Demand for leisure travel remains strong and, as our main markets recover from economic stagnation, we are well positioned to maintain our market-leading positions and grow further"</i> KEY RISK INDICATORS INCLUDE • Consumer sentiment • GDP growth • Competitor monitoring	GROUP-WIDE • Maintaining our focus on creating lifetime relationships with our customers through great service and fantastic lifetime experiences. • Leveraging our scale, flexibility and exclusivity in order to deliver sustainable, profitable growth and out-perform the market. TOUR OPERATOR • 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 closely aligned to forecasts. ONLINE ACCOMMODATION • Continuing to exploit our model which involves minimum commitment risk and operates extremely well in relation to the online lates market.

RISK CATEGORY	NATURE AND EXTENT OF RISK	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 our operating results and financial performance. APPETITE (OPEN) We are willing to invest in the appropriate levels of competence and capability to drive the future success of our business. NET RISK MOVEMENT ▶ <i>"Our people are a key differentiator for TUI Travel, they set us apart from our competition. This year our focus in HR has been on developing a consistent, effortless and engaging experience for our colleagues, which in turn will be transferred to our customers"</i> KEY RISK INDICATORS • Your Voice Survey results • Talent gap analysis • Employed vs. contracted ratio	GROUP-WIDE • Assessing continuously 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. • Continuing to attract high quality talent from across the world in to our International Graduate Leadership Programme and local graduate schemes. • Enhancing continuously our existing development programmes for senior managers and executives and adding new programmes for junior managers. • Driving high performance and engagement through our performance review, development plans and career planning process. • Extending our 'risk & control and doing the right thing' objectives down through the organisation as part of developing a strong culture of effective risk governance. • Focusing on enabling our people digitally in support of our commitment to be an online-driven company.
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. 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 (CAUTIOUS) We are careful to ensure we have the appropriate levels of flexibility & resilience in our business model to withstand shocks to our operations and ultimately our customers. NET RISK MOVEMENT ▶ <i>"We operate in a market segment that, as a matter of course, has to weather external events. Our strong, flexible and resilient business model enables us to continue with minimal disruption to our day-to-day activities and customers"</i> KEY RISK INDICATORS • Local intelligence • Passengers by destination • Media coverage	GROUP-WIDE • 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 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.

STRATEGIC REPORT

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	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 (ADVERSE) We have a low tolerance to instances of non-compliance and are careful to be a good corporate citizen in all of the countries in which we operate. NET RISK MOVEMENT ▼ <i>"We have engaged consistently with the European Commission, the European Parliament and with member states as they have considered these reforms [Air Passenger Rights and Package Travel Directive] and will continue to do so over the coming 12 months"</i> KEY RISK INDICATORS • Market intelligence • Propensity to claim • Media exposure	GROUP-WIDE • 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 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, in order to prevent bribery and corruption in the countries in which we operate. • Delivering a sustainability strategy across the Group, to develop more sustainable holidays and to reduce the environmental impact at each stage of our customer's journey. A dedicated sustainable development team supports the Group and works closely with business management (see our Sustainable Development section on page 24). • Maintaining our leadership position on carbon reporting and performance. Ranked joint first place in the FTSE 350 for climate change reporting and transparency in the 2014 Carbon Disclosure Project. Operating the most fuel efficient airlines in Europe – reducing per passenger carbon emissions by 10.3% over the last six years.

Health & Safety

The health and safety (H&S) of customers and employees remains a key focus for the Group.

The Group businesses liaise and cooperate with each other to ensure that best practice is followed and their decisions are underpinned by the TUI Travel PLC H&S Policy Statement, signed by the Chief Executive, Peter Long. Primary responsibility for the management of H&S remains with the individual businesses within the Group but assistance is available from the Group H&S Compliance Department. Further assurance that sound H&S management systems are being implemented is provided by Group Audit Services.

The Group airlines continue to work together to comply with and improve their safety management systems. In each Group airline there are clearly identified and accountable senior managers who are responsible for safety in the key areas of flight operations, training and ground operations/engineering. There is also a risk-based safety management system (which engages the whole airline at all levels in safety management). 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). The National Aviation Authorities regularly inspect and audit each airline's safety management system.

2013/2014 saw the first full year's operation of the Group H&S Compliance Department (GHSCD) and good progress has been made with regard to:

- monitoring H&S management systems across the Group;
- collating relevant data and establishing mechanisms for regular reporting 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;
- providing guidance, advice and support to operating businesses; and
- investigating fatalities, serious incidents and near misses.

Group-wide incident thresholds have been established and all non-natural-cause fatalities and all Yellow, Orange and Red incidents are automatically investigated. Trigger points have been set for each incident level colour band which, if reached, will result in a full review of H&S management processes.

Employee safety

Our employees face hazards that are both common and unique to their particular business on a world-wide basis. Effective identification and control is achieved through a robust risk assessment procedure. Risk assessment is a key element of the safety management systems being developed by our businesses.

GHSCD is now working in collaboration with dedicated employee H&S resource within a number of geographical locations – including Spain, France, Germany, the Nordics and North America. Elements of mature safety management systems are shared, where appropriate, amongst those businesses when developing their own systems. In this way practical procedures are put in place to assist and benefit the business, promoting a positive safety culture whilst allowing a consistent Group-wide approach.

The Group H&S induction programme 'Safety in Your Workplace', which provides a baseline of H&S knowledge for all employees, is currently being revised and updated. The induction programme continues to be a key element of the Group's commitment to good H&S practice.

Incident rates across the business are collated and reviewed to ensure any trends are identified and actions are taken to resolve issues.

Compliance with the appropriate national and/or state law remains a priority amongst all businesses regardless of location. Much of the H&S law within Europe stems from the same source, although it has been interpreted slightly differently by national governments, and therefore there is much commonality in the procedures being included in safety management systems.

Customer safety

Each Sector continues to have responsibility for ensuring the H&S of their customers. This is achieved by having sound H&S practices and robust safety management systems embedded within each business.

The Mainstream Sector continues to move forward with the 'One Mainstream' concept and, through the One Mainstream H&S Working Group, has established the foundations for closer co-operation, greater consistency, common policies, systems and processes across all Mainstream source markets. The H&S Working Group meets regularly and is made up of colleagues from every source market with H&S responsibilities together with the Head of GHSCD.

Each Mainstream source market continues to maintain its own dedicated H&S team of people, each of whom has specific H&S duties.

Some developments which took place in Mainstream H&S during 2014 are detailed below:

- the creation of a UK & Ireland Mainstream Overseas H&S Management Board to provide a greater degree of governance and oversight of UK&I specific H&S management;
- the expansion of the TUI France H&S team which has allowed a full review of all the Club Marmara properties and the development of TUI France's Safety Management System; and
- the application of H&S resource within TUI Germany specifically dedicated to the identification and eradication of swimming pool entrapment issues.

The Specialist & Activity Sector continues to operate a dedicated H&S function based in the UK and overseas, working with all SAS divisions to establish and maintain Safety Management Systems under the guidance of GHSCD. Each SAS business is 'Risk Profiled' which facilitates the provision of H&S responses tailored to divisional and business unit risks.

Suppliers of accommodation, transport and excursions/activities are assessed using both physical inspections and self-assessments generated from the 'Sure2Care' in-house, web-based due-diligence system which now hosts in excess of 37,000 completed H&S assessments.

Within the Accommodation & Destination Sector (A&D) the responsibility for H&S is at the divisional level.

Hotelbeds continues to deploy Sure2Care – managed from the central Palma-based headquarters with each region responsible for delivery against specific Sure2Care targets. The Hotelbeds' Steering Committee meets regularly to agree responses to any H&S related issues which are identified.

Within A&D, InterCruises continues to deploy and develop its safety management system and is increasingly utilising Sure2Care for supplier assessments as part of its contract with Mainstream for the provision of activity/excursion and transport services.

The Strategic report was approved by a duly authorised Committee of the Board of Directors on 3 December 2014 and signed on its behalf by:

Peter Long
 Chief Executive
 3 December 2014

BUSINESS AND FINANCIAL REVIEW

Group performance

Year ended 30 September

£m	Underlying results ¹			Statutory results	
	2014	2013 ³	Change %	2014	2013 ³
Revenue	14,619	15,051	-3%	14,619	15,051
Operating profit	612	589	+4%	499	297
Profit before tax	475	461	+3%	362	169
Free cash flow	403	427	-6%	403	427
Basic EPS (pence)	29.1	30.1	-3%	16.4	4.6
Dividend per share (pence)	24.55 ⁴	13.5		24.55 ⁴	13.5

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

2 Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result at prior year rates

3 Comparative figures for the year ended 30 September 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'

4 Dividend of 20.5p payable on completion of the merger. This includes 10.5p in lieu of a final dividend

Group revenue decreased by 3% from the prior year to £14,619m (2013: £15,051m). This result was driven by adverse foreign currency translation impact. The main drivers of the year-on-year improvement in underlying operating profit are as follows:

	£m
2013 underlying operating profit	589
Mainstream trading	+47
Non repeat of French contract provision	+11
Accommodation Wholesaler	+10
Business improvement	+12
Other (includes Emerging Markets and Inbound Services)	-15
2014 underlying operating profit at constant currency	654
FX translation	-42
2014 underlying operating profit	612

Underlying operating profit improved by £65m to £612m in 2014, on a constant currency basis².

The improvement in underlying operating profit was driven by strong performances in the UK, Germany and Netherlands, as well as a halving of French tour operator losses. These positive results were partly offset by weakness in the Nordics trading in the first half of the year, and by the performances of Russia and Ukraine.

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

Year ended 30 September	2014 £m	2013 £m
Underlying operating profit	612	589
Separately disclosed items	1	(24)
Acquisition related expenses	(67)	(65)
Impairment of goodwill	-	(188)
Impairment of financial assets	(29)	-
Taxation on profits and interest of joint ventures and associates	(18)	(15)
Statutory operating profit	499	297

£654m

Underlying operating profit for 2014 on a constant currency basis²

+11%

increase in underlying operating profit on a constant currency basis²



William Waggott
Chief Financial Officer

Acquisitions

Acquisitions were made in the year for a total investment value of £31m. The main acquisition made during the year, on 20 December 2013, was a further 41% of the voting equity shares of Le Passage to India Tours and Travels Private Limited ('LPTI'), a tour operator and destination management company incorporated in India. The Group previously owned 50% of LPTI and accounted for this as a joint venture. The total consideration for this step acquisition was £20m, including £10m of non-cash consideration for the Group's share of LPTI that it previously owned.

Net financial expenses

Net financial expenses have increased by £9m to £137m. The increase was primarily due to a number of one-off items totalling £19m, the largest of which were the acceleration of the amortisation of the old revolving credit facility and the impact of revaluation of a put option for an investment in a tour operator in Germany. These one-off charges were partially offset by a £10m reduction in interest due to the conversion of the £350m convertible bond at the end of the financial year.

Separately disclosed items (SDIs)

Separately disclosed items net to a £1m credit in the year (2013: £24m expense). The following table provides a breakdown of these items:

	2014 £m	2013 £m
Restructuring	37	54
Pension credit	(67)	(25)
VAT regularisation	41	-
Other	(12)	(5)
Total SDIs	(1)	24

The separately disclosed items expense includes the following items:

- £14m in Germany arising from the restructure of support functions and the airline engineering department.
- £10m in France from the ongoing restructure of both the tour operator and the airline.
- Restructuring charge of £4m in the Accommodation & Destinations Sector and £4m in Marine.
- £67m pension credit primarily relating to two pension transactions which completed in the UK.
- £41m charge from regularising the VAT position of Hotelbeds Product SLU, registered in Spain.

Further information is included within Note 4.

Impairment of financial assets

Given the ongoing challenging trading environment for tour operators located in the Russian and Ukrainian source markets, an impairment of £28m was booked against loans to our joint venture entity. This non-underlying item is included within 'Impairment of financial assets'. Further information is included within Note 8.

Taxation

The underlying effective rate of taxation for the year ended 30 September 2014 is calculated based on the underlying profit before tax (excluding separately disclosed items, acquisition related expenses and impairment charges) and equates to 31% (2013: 27%). The increase in the underlying effective tax rate is due to the effect of the geographical mix of profits.

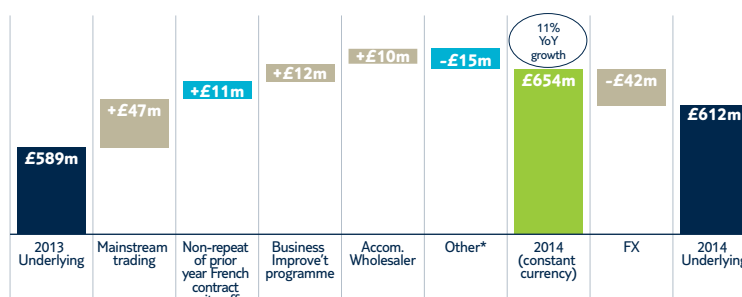
The actual tax rate of 46% differs from the underlying effective tax rate primarily due to the write off of certain deferred tax assets totalling £26m where there is no longer sufficient certainty of the timing any benefits that might arise in the future.

During the year, the Group paid £3m of UK cash corporation tax and a further £122m of cash corporate taxes in other jurisdictions.

£612m

4% increase in underlying operating profit for 2014

GROUP OPERATING PROFIT BRIDGE



* Other consists of Emerging Markets (£7m), Specialist & Activity (£4m), Inbound Services (£3m) and Central (£1m)

BUSINESS AND FINANCIAL REVIEW

Group performance

Year ended 30 September continued

Earnings per share

Underlying basic earnings per share was 29.1p (2013 restated: 30.1p). Higher underlying operating profits at constant currency rates were offset by the impact of foreign exchange translation, an increased interest charge and the higher underlying effective tax rate. Statutory basic earnings per share increased to 16.4p (2013 restated: 4.6p), reflecting lower separately disclosed items in the year.

Dividends

On 13 May 2014 the Board recommended an interim dividend of 4.05p per share (2013: 3.75p), which was paid on 3 October 2014.

On 15 September 2014, as part of the Rule 2.7 announcement, the Directors announced that the Company will, immediately prior to completion of the merger with TUI AG, declare and pay a second interim dividend of 20.5p per share, which includes a 10.5p dividend per share in lieu of a final dividend for the financial year ended 30 September 2014. This second interim dividend will be payable to those shareholders on the register of members of the Company at the Scheme Record Time and will be paid prior to completion of the merger conditional on the Court Order having been granted at the Scheme Court Hearing.

Cash and liquidity

The net cash position (cash and cash equivalents less loans, overdrafts and finance leases) at 30 September 2014 was £371m (30 September 2013: £2m). This excludes restricted cash of £140m (2013: £145m). Further information is included in Note 27. The £350m convertible bond saw 99.6% conversion into TUI Travel shares on maturity in October 2014. The number of shares issued as a result of the conversion was 99,541,916.

The net cash position consisted of £1,374m of cash and cash equivalents, which includes restricted cash of £140m, £89m of current interest-bearing loans and liabilities and £774m of non-current interest-bearing loans and liabilities. As at 30 September 2014, undrawn committed borrowing facilities totalled £1,301m (2013: £1,192m).

Cashflow conversion is 85% of underlying profit before tax. Free cash flow generation was £403m (2013: £427m), analysed as follows:

£m	2014	2014 constant currency basis ²	2013
Underlying operating profit	612	654	589
Depreciation and amortisation included within underlying operating profit	205	211	202
Underlying EBITDA ¹	817	865	791
Working capital movement	116	161	172
Capital expenditure (net of disposals)	(172)	(180)	(217)
Pension funding	(66)	(66)	(74)
Tax	(125)	(129)	(110)
Interest	(89)	(92)	(71)
Exceptional cash costs	(78)	(82)	(64)
Free cash flow	403	477	427

¹ Earnings before interest, tax, depreciation and amortisation

² Constant currency basis assumes that constant foreign exchange translation rates are applied to the underlying operating result at prior year rates

We remain satisfied with our long-term debt funding and liquidity position. This includes external bank revolving credit facilities totalling £1,400m (including £175m letter of credit facilities) which mature in June 2018 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 also have a medium-term £150m bank credit facility in place to cover the October 2015 put option on the £400m convertible bond. This facility matures in April 2016.

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, strong 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

Our Mainstream business reported a record performance over the year, with underlying operating profits growing by 13% to £581m on a constant currency basis.

We continue to leverage fully the strength of expertise across the Sector and the scale of the Group through our 'One Mainstream' initiative. This 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 increasingly difficult for our competitors to replicate these holidays.

New openings during the year included Sensori Jamaica, new Couples product in Croatia (Kalamota Island) and a new Holiday Village resort in Ibiza. We also opened six new Blue Star and five new Blue Couples concepts for the Nordic market. 2014 also marked the first season of our pan-Mainstream SuneoClub concept, which saw openings in Kos and Djerba among others.

Moving forward into next year, we will see three new Sensori resorts in Turkey, Cyprus (Aphrodite Hills) and Ibiza and six new Splash resorts in Spain, Greece and North Africa. New Sensimar/Couples resorts are also planned for Croatia, Tunisia, Portugal, Ibiza and Bodrum.

Sales of higher margin unique holidays during the year increased by three percentage points to 71% of Mainstream holidays. We have maintained our record customer satisfaction score of 79% for our three largest Mainstream markets. Demand for unique holiday experiences continues to see strong growth and our customers are delighted with the holiday experiences we have designed for them. We believe there is a direct correlation between unique holidays and strong customer service questionnaire scores that leads to increased customer retention.

One mobility platform

Our unique holiday offering gives us control over the end-to-end customer experience and an opportunity to interact with our customers throughout their journey. We have a clear digital strategy to enhance and deepen the relationship with our customers. Our award-winning TUI Digital Assistant (TDA) app has now had over one million downloads across Mainstream. The digital assistant is a key driver of customer engagement at every stage of the customer journey.

We recently expanded the functionality of the TDA by adding 'search and book' on the iPad for both the Thomson and First Choice apps in the UK. This will be followed by the Android and iPhone launch in Q1 2015. 'Search and book' will be expanded to the Nordics by the end of Q1 2015. Traffic from mobile devices (including tablets) continues to grow dramatically, standing at 36% of overall visits in 2014, up from 25% in the prior year. In the UK, the conversion rate on smartphones has increased by just under 50%.

The use of a common app platform has enabled us to widen the roll out across a number of Mainstream markets. As well as the UK and Germany, the app is now live in the Nordics, Austria and Switzerland. We will continue to leverage our one common mobility platform in 2015 by launching the app across the rest of our Mainstream markets. The ongoing pipeline of features includes online check-in via the app (expected by early 2015), flight extras, travel documents and hotel check-in.

Flight experience

The flight experience is a key part of our unique holiday offering. 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. Having a modern, cost-efficient and reliable fleet is strategically important to the Group, as well as operating the most carbon efficient airlines in Europe.

Our Boeing 787-8 Dreamliner fleet has proved to offer a much better experience to our customers. The feedback we receive from those who fly on these aircraft is exceptional. As at November 2014, we operate eight 787 Dreamliner planes, with a further five to be delivered by the end of FY15. We remain the only integrated tour operator to operate these aircraft and carried one million long-haul customers during 2014.

The expanded 787 fleet has been a key driver of demand for long-haul travel, enabling us to travel non-stop to destinations such as Western Mexico, Mauritius and Thailand. The range of long-haul destinations offered will be expanded during the coming year, with direct flights to Costa Rica in November 2015 as well as other destinations being considered such as St Lucia, Antigua, Vietnam and Malaysia. The long-haul opportunity complements our existing end-to-end customer proposition which is difficult for LCCs and scheduled carriers to replicate.

Our 'One Airline' cost saving initiative will see one structure across all of our Mainstream markets. This will enable one IT platform, and a joint perspective on crew planning/aircraft deployment across our six airlines. The leadership structure for this 'one virtual airline' is in place with all aviation operations now under one Airline Operations Director. Cost savings will be driven by leveraging our scale across joint purchasing and a common supply chain. 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.

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 two percentage points over the year to 68% of Mainstream sales, with improvements in all three largest source markets. The improvement in direct distribution was driven by the online channel which also increased by three percentage points in 2014 to 38% of Mainstream sales. During the year, we generated £4.1bn of revenue online within our Mainstream business, reflecting 6% growth in online package bookings.

One online platform

We continue to drive the online customer experience through investments made in our online platforms. This helped to deliver a tangible increase in conversion as customers booking their holidays experienced an enhanced user interface including focused search functionality. We expect that our other key source markets will join the UK and Nordics on the same online platform during 2015. Our websites are tablet and mobile optimised as our customers increasingly use their tablets and mobile devices to dream, plan, search and book with us.

BUSINESS AND FINANCIAL REVIEW

Our growth levers

Creating shareholder value continued

Next generation retail stores

We are currently operating 23 next generation stores in the UK, following the first store that launched in Bluewater late last year. These stores combine personal advice and service with a rich digital experience that enables customers to build their perfect holiday. Features include a giant video wall to show off new video content, an interactive map and table to help research holidays, the 'Advice Bar' with staff on hand to answer questions and free in-store Wi-Fi. Additional next generation stores will continue to open in the UK at high footfall sites. We have also carried this concept into other key source markets and now operate two next generation stores in both Germany and the Netherlands.

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 will be 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.

We maintain a target of overheads as a percentage of sales of less than 5%, which was maintained in 2014.

2. Organic Specialist & Activity growth

The Specialist & Activity Sector offers a wide range of unique activity and experience based holidays to 1.3m 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 2014, the Specialist & Activity Sector saw a mixed performance from its various businesses, delivering broadly flat operating profit on a constant currency basis. We saw a strong result from our North American Education and North American Specialist businesses. Sport benefited from weak year-on-year comparatives as well as the Ashes and 2014 FIFA World Cup tournament. However, these results were offset by soft trading within the Marine and Adventure businesses.

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

Our Accommodation Wholesaler business 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 focusing on high growth markets, such as Asia, Africa and Latin America. The global hotel market, which includes all hotel bookings, amounts to €378bn with the Accommodation Wholesaler market accounting for €35bn of this spend. We also continue to explore avenues for new product growth – for example, ROI Back (Global Obi), which was acquired during 2014, provides online solutions and marketing to hotels. In addition, we announced a three year deal in March 2014 with easyJet Holidays to act as their accommodation and transfer & activity provider.

Accommodation Wholesaler continues to grow its global leadership position, delivering TTV growth of 15% to £1,899m during the year with a strong performance from Asia and Latin America. Roomnights grew by 16% to 22.5 million during 2014, with hotel inventory also increasing by 8% to over 67,000 hotels. Accommodation Wholesaler delivered a 21% growth in underlying operating profit during the year, on a constant currency basis.

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 9% to £382m during the year. The decline in TTV was primarily driven by a reduction in unprofitable marketing spend within our AsiaRooms brand. On the mobile side, we launched new iOS and Android apps across all brands (LateRooms, AsiaRooms and Malapronta). We look to capitalise on mobile growth through a single content management platform in the year ahead.

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, delivering 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 a strong free cash flow, with an improvement year-on-year of £50m to £477m on a constant currency basis. We delivered a strong ROIC performance of 14.6% (2013: 14.8%), down slightly on prior year due to foreign exchange translation and an increase in the underlying effective tax rate, as a result of delivering increased profits in higher taxed jurisdictions such as Germany. We generated a cash conversion rate of 85% in 2014 (2013: 93%). This was above our cash conversion target of at least 70%.

Our Group-wide business improvement programme delivered £12m of cost savings during the year, in line with our expectations. These cost savings were primarily driven by back office restructuring and IT platform replacement across a number of markets. This leaves £7m of the business improvement programme left, which is expected to close fully in 2015 with these cost savings coming through the UK and Specialist & Activity Sector.

6. Pioneering sustainability change in our sector

We see sustainability as an integral part of our differentiation strategy and we have experienced a range of business benefits, including cost efficiencies, quality improvements and the enhanced engagement of customers, colleagues and suppliers. We have made significant progress in the final year of our Sustainable Holidays Plan – our three year sustainability strategy which aligns with our corporate strategy and strategic drivers.

Our airlines are the most carbon efficient in Europe. In 2014, TUI Travel airline's CO₂ per revenue passenger kilometre was 69.9g – an improvement of 10.3% over the last six years. This was achieved through investment in new, more fuel-efficient aircraft, operational efficiencies, fuel conservation activities and capacity amendments.

We exceeded our goal to deliver 10 million greener and fairer holidays over three years, by taking over 11.5 million customers to hotels with credible sustainability certifications (5.5 million in 2014). We featured over 5,900 hotels with sustainability certifications in 2014.

Our sustainability performance has been recognised through many achievements in 2014:

- For the seventh consecutive year, TUI Travel was featured in CDP's Climate Disclosure Leadership Index (CDLI) and was ranked joint first place in the FTSE 350 for our approach to climate change reporting and disclosure. TUI Travel was the only Travel & Leisure company to feature in the 2014 CDLI.
- We continue to be listed in the FTSE4Good Index in recognition of meeting strict social, environmental and governance standards.
- TUIfly was ranked the most climate-efficient airline in the world with over one million passengers in the 2014 Atmosfair Airline Index.
- Thomson Airways won the Best Aviation Programme for Carbon Reduction at the 2014 World Responsible Tourism Awards.

Segmental performance

Segmental performance is based on underlying financial performance (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 £546m (2013: £514m). On a constant currency basis, underlying operating profit increased by 13% to £581m.

	2014	2013	Change
Customers ('000)			
UK	5,223	5,232	Flat
Nordics	1,557	1,600	-3%
Germany ¹	6,245	6,459	-3%
France	1,390	1,585	-12%
Other	5,070	5,094	Flat
Total	19,485	19,970	-2%
Revenue (£m)			
UK	3,927	3,879	+1%
Nordics	1,108	1,223	-9%
Germany	3,951	4,161	-5%
France	945	1,077	-12%
Other	2,476	2,528	-2%
Total	12,407	12,868	-4%
Underlying operating profit/(loss) (£m)			
UK	271	251	+8%
Nordics	47	79	-41%
Germany	113	113	Flat
France	(36)	(60)	+40%
Other	151	131	+15%
Total	546	514	+6%
Mainstream key performance indicators (%)			
Unique mix ²	71	68	+3pp
Customer satisfaction – key source markets	79	79	Flat
Direct distribution mix	68	66	+2pp
Online mix	38	35	+3pp

1 Germany customers restated to include seat only sales distributed by TUIfly.com

2 Unique mix updated to include Airtours brand and long-haul destinations not previously included within packages

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
2013	251	79	113	(60)	131	514
Trading	+16	-26	+11	+10	+36	+47
French contract provision	–	–	–	+11	–	+11
Business improvement	+4	–	–	+5	–	+9
2014 at constant currency	271	53	124	(34)	167	581
FX translation	–	-6	-11	-2	-16	-35
2014	271	47	113	(36)	151	546

£546m

Mainstream Sector
underlying operating
profit (2013: £514m)

BUSINESS AND FINANCIAL REVIEW

Segmental performance
continued

UK

Key performance indicators (%)	2014	2013	Change %pts
Unique mix	84	83	+1pp
Direct distribution mix	91	89	+2pp
Online mix	51	47	+4pp

The UK business delivered a £20m improvement in underlying operating profit to £271m during the year. This translates to an operating margin of 6.9%, a 40 basis point improvement over the prior year. This record result was driven by focus on higher margin unique holidays increasingly distributed online and greater operational efficiency.

We continued to see strong demand for unique holidays, accounting for 84% of departures, up by one percentage point on the prior year. New openings during the year included Sensatori Jamaica, new Couples product in Croatia (Kalamota Island) and Morocco (Madina Gardens) as well as a new Holiday Village resort in Ibiza. The result benefited from a two percentage point increase in direct distribution to 91% compared with the prior year. Online bookings accounted for 51% of all bookings, up four percentage points year-on-year.

The UK business delivered £4m of efficiency savings towards the business improvement programme in the period.

Nordics

Key performance indicators (%)	2014	2013	Change %pts
Unique mix	94	93	+1pp
Direct distribution mix	90	89	+1pp
Online mix	70	67	+3pp

Nordics achieved an underlying operating profit of £47m (2013: £79m). The decline in operating result was driven primarily by a weak performance in H1 reflecting weaker pricing due to a significant reduction in the Egypt programme, political unrest in Thailand and a more competitive environment overall, particularly in the Canaries which is a key destination and source of Winter profitability. The Nordic business delivered an underlying operating margin of 4.2% (2013: 6.5%) or 4.5% on a constant currency basis.

Our performance during the second half of the year stabilised, delivering a broadly flat H2 operating profit year-on-year on a constant currency basis. We united the four countries under a 'One Nordic' structure which will be built upon as we focus on differentiated product and driving further operational efficiencies. A change in management in early Summer saw Eivor Andersson join the Group to take charge of TUI Nordic.

Unique holidays accounted for 94% of departures, one percentage point ahead of the prior year. Direct distribution increased by one percentage point to 90%. New openings during the year included one new Blue Village in Kos, six new Blue Star and five new Blue Couples concepts in Antalya, Bodrum, Palma, Sicily, Cyprus. Online distribution continues to grow, standing at 70% of bookings, up three percentage points over the prior year.

Germany

Key performance indicators (%)	2014	2013	Change %pts
Unique mix ¹	52	49	+3pp
Direct distribution mix	37	36	+1pp
Online mix	11	8	+3pp

¹ Unique mix updated to include Airtours brand and long-haul destinations not previously included within packages

Germany reported a £11m increase in underlying operating profit on a constant currency basis to £124m. Including currency translation, Germany reported flat operating profit of £113m (2013: £113m). Operating margin for the German business increased by 20 basis points to 2.9% in 2014, and to 3% on a constant currency basis.

Last year we launched our popular TUI Reisewelten labels (Beach, Classic, Lifestyle, Nature, Premium and Scene) which, along with continued focus on our highly differentiated holiday concepts, has increased the mix of unique holidays to 52%, up three percentage points. We continue to implement our strategy to improve direct distribution with a focus on online via our TUI.com website. Direct distribution stands at 37%, an increase of one percentage point over the prior year. Online continues to grow and stood at 11% of bookings in 2014, up by three percentage points from the prior year.

France

Key performance indicators (Tour operator) (%)	2014	2013	Change %pts
Unique mix	89	81	+8pp
Direct distribution mix	56	56	Flat
Online mix	24	18	+6pp

France reported a reduced underlying operating loss of £36m (2013: loss of £60m). This reflected the continued delivery of efficiency savings and alignment of tour operator capacity in line with demand.

Our overall direct distribution mix of 56% (2013: 56%) remained flat with the increase in online bookings offset by the planned closure of part of our retail estate. The French tour operator delivered £4m of efficiency savings towards the business improvement programme in the period.

The Airline result declined by £6m from the prior year with an operating loss of £7m. The year-on-year decline was driven by weak local demand, not helped by an outbreak of the Chikungunya virus in the Caribbean and Ebola concerns in Africa. The French airline delivered £1m of efficiency savings towards the business improvement programme during the period.

Underlying operating loss (£m)	2014	2013	Change %
Tour Operator	(29)	(59)	+51
Airline	(7)	(1)	N/a
	(36)	(60)	+40

Other

The Other source markets generated operating profit growth of 15% to £151m (2013: £131m), driven by a very strong performance from our Netherlands business that saw operating profit more than double. This was due to a higher volume of unique holidays sold and airline efficiencies.

Emerging Markets

Emerging Markets reported an underlying operating loss of £18m in the year (2013: loss of £12m). The result for this sector reflects the ongoing challenging trading environment for the tour operators in Russia and Ukraine. The trading environment continues to be challenging due to geopolitical issues.

Emerging Markets (share of JV)	2014	2013	Change %
Revenue (£m)	11	–	N/A
Underlying operating loss (£m)	(18)	(12)	-50

Accommodation & Destinations

Accommodation & Destinations (A&D) delivered an underlying operating profit of £80m (2013: £78m).

On a constant currency basis, underlying operating profit moved forward £7m to £85m, reflecting a £10m improvement in Online Accommodation and £3m reduction in profit in Inbound Services.

TTV for the Sector increased by 6% to £3.3bn (2013: £3.1bn). This was primarily driven by the strong double-digit growth in Accommodation Wholesaler.

Accommodation & Destinations	2014	2013	Change %
Key performance indicators			
Accommodation Wholesaler roomnights (Online)			+16
Accommodation OTA traffic (Online)			-6
Accommodation OTA roomnights (Online)			-11
Incoming passenger volumes			+2
Revenue (£m)	872	750	+16
Underlying operating profit (£m)			
Online Accommodation	48	40	+20
Inbound Services	32	38	-16
Total	80	78	+3

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
2013	40	38	78
Trading	–	-3	-3
Accommodation Wholesaler	+10	–	+10
Accommodation OTA	–	–	–
2014 at constant currency	50	35	85
FX translation	-2	-3	-5
2014	48	32	80

BUSINESS AND FINANCIAL REVIEW

Segmental performance

continued

Online Accommodation

The Online Accommodation business delivered underlying operating profit of £48m (2013: £40m), reflecting a strong underlying performance within Accommodation Wholesaler. TTV for Online Accommodation grew by 10% to £2.3bn and roomnights increased by 16%.

Accommodation Wholesaler continues to grow its global leadership position, delivering TTV growth of 15% to £1,899m during the year with a strong performance from Asia and Latin America. Roomnights grew by 16% to 22.5 million during 2014, with hotel inventory also increasing by 8% to over 67,000 hotels. Accommodation Wholesaler delivered a 21% growth in underlying operating profit during the year, on a constant currency basis.

Accommodation OTA TTV declined by 9% to £382m during the year. The decline in TTV was primarily driven by a reduction in unprofitable marketing spend within our AsiaRooms brand. On the mobile side, we launched new iOS and Android apps across all brands (LateRooms, AsiaRooms and Malapronta). We look to capitalise on mobile growth through a single content management platform in the year ahead.

Inbound Services

The Inbound Services business delivered underlying operating profit of £32m (2013: £38m). The reduction in profit was driven by £3m adverse foreign exchange translation and the continued difficult trading environment in North Africa.

Incoming passenger volumes increased by 2% over the prior year. In cruise handling, the number of port calls handled increased by 11%.

Specialist & Activity

Specialist & Activity reported underlying operating profit of £38m (2013: £41m). On a constant currency basis, Specialist & Activity reported broadly flat profits of £40m (negative translation impact of £2m). The year-on-year decline reflects soft trading within the Marine and Adventure businesses. This was partially offset by improved trading in North American Specialist and North American Education. The Sport division benefited from the Ashes and 2014 FIFA World Cup tournaments.

Specialist & Activity	2014	2013	Change %
Customers ('000)	1,293	1,403	-8
Revenue (£m)	1,329	1,433	-7
Underlying operating profit (£m)	38	41	-7

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

+10%

Growth in TTV in Online
Accommodation in 2014,
compared to 2013

Current trading and outlook

Winter 2014/15

We are pleased with our current trading performance for Winter 2014/15. To date, 63% of the Mainstream programme has been sold, with overall bookings and average selling prices up 1%.

Current Trading¹

YoY variation%	Winter 2014/15			
	Total ASP ²	Total Sales ²	Total Customers ²	Programme sold (%)
Mainstream				
UK	+2	+7	+4	53
Nordics	+4	-3	-6	73
Germany	Flat	+1	+2	58
France tour operators	+3	-8	-11	54
Other ³	-2	+2	+4	78
Total Mainstream	+1	+2	+1	63
Accommodation Wholesaler⁴	+2	+19	+17	N/A

1 These statistics are up to 30 November 2014 and are shown on a constant currency basis

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

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

4 Sales refer to total transaction value (TTV) and customers refers to roomnights

In the UK, bookings are up 4% and average selling prices are up 2%. We are continuing to see strong demand for long-haul destinations, driven by our expanded 787 fleet, with overall long-haul bookings up 13%. New winter resorts include the Sensatori Jamaica, which opened its doors in May 2014. Unique holiday bookings are up 7%, accounting for 84% of overall bookings, up three percentage points on prior year. Online bookings are up 7%, accounting for 51% of bookings, up two percentage points on prior year. To date, approximately 53% of the Winter programme has been sold.

In the Nordics, bookings are down by 6% but ahead of the capacity reductions we have made to strengthen our competitive position in this difficult market. We are pleased with average selling prices, which are up by 4%. Sales of unique holidays account for 92% of bookings, in line with last year. Online bookings account for 69% of bookings, up three percentage points on prior year. To date, approximately 73% of the Winter programme has been sold.

In Germany, bookings are up 2% with flat average selling prices. Unique holiday bookings are up 12%, accounting for 48% of total bookings, up four percentage points. Our digital transformation continues to deliver, with online bookings up 27%, accounting for 12% of total bookings, a two percentage point increase. To date, approximately 58% of the Winter programme has been sold.

In France, bookings are down 11% but ahead of capacity reductions, where we have made selected capacity cuts in North Africa. We are encouraged by positive average selling prices, which are up 3%. We have seen good growth in alternative destinations for the French market, such as Spain which is up by more than 50% versus the prior year. To date, approximately 54% of the Winter programme has been sold.

Accommodation Wholesaler continues to grow double-digit with TTV up by 19%. We remain encouraged by the trading performance in Specialist & Activity with sales up 4%.

Summer 2015

The strong start to UK trading for Summer 2015 continues, with bookings up by 9%. Average selling prices are up 2%, reflecting strong pricing in the prior year comparative. Sales of unique holidays are up 7% compared with this time last year, accounting for 84% of holidays sold to date, broadly in line with the prior year. To date, 22% of the programme has been sold.

Fuel/Foreign exchange

The majority of our fuel and currency requirements for the seasons currently on sale are already hedged, 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 28 November 2014	Winter 2014/15	Summer 2015
Euro	88%	67%
US Dollars	88%	77%
Jet Fuel	90%	80%

Outlook

We are delighted to have delivered another year of out-performance against the growth roadmap we set out in December 2012. This demonstrates the strength and resilience of our business model in what has been a competitive trading environment for many tour operators and airlines. Our UK business is going from strength to strength, delivering a 6.9% underlying operating profit margin this year, as we continue to build on our strong market-leading position. In Germany further progress has been made in realising operational efficiencies, growing unique content and driving online sales. Also particularly pleasing has been our performance in the Netherlands and reducing our losses by half in the French tour operator. In addition to the strong performance by Mainstream, our Accommodation Wholesaler business delivered a second year of growth in earnings in excess of its growth roadmap.

We are pleased with the progress in Winter 2014/15 trading and the strong start to Summer 2015 trading in the UK continues. The combination of our market leadership position, scale, focus on unique holidays distributed increasingly online and our relationship with the customer throughout their whole holiday experience continues to provide a strong basis for sustainable, profitable growth. The merger with TUI AG will strengthen and future-proof our combined Group. It will also enhance the certainty of long-term unique holiday growth and reinforce our clear competitive advantage through further control over the end-to-end customer experience. This will mark the start of an exciting new phase of growth, delivering significant opportunities and value to customers, employees and shareholders.

63%

Overall Mainstream
Winter programme sold
(up to 1 December 2014)

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.

The Group's tax objectives

In view of the Group's approach to tax, the following high-level tax objectives have been developed:

- Commercial and sustainable tax planning to support the Group's business operations
- Optimisation of the Group's tax risk and control environment
- Accurate and timely tax compliance on a full-disclosure basis
- Optimisation and stability of the income statement effective tax rate and cash tax payments
- Excellent working relationships with tax authorities

These are considered in more detail in the following sections.

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 Director of Tax, 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 reoccurrence.

Context

The effective tax rate on the Group's underlying profit before tax for 2014 was 31%, up from 27% in 2013. The Group paid cash income taxes of £125m in 2014, an increase of £15m from 2013. These increases are due to the Group's increasing year on year underlying profitability and, in particular, increasing underlying profitability in countries that have statutory rates of corporation tax or corporate income tax in excess of the UK rate of 22%. 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 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 advisers 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.

The macro tax environment will be subject to considerable change as a result of the recent international co-operation between governments to address cross-border and international tax matters. The OECD's Base Erosion & Profit Shifting (BEPS) study is the prime example of this international co-operation.

The BEPS study is due to publish its final recommendations over the next 12 months and these recommendations are likely to be adopted by many, if not all, governments. As with all legislative change, the Group continues to monitor the possible impact on its business operations.

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 2014, the Group paid corporate income taxes of £125m, an increase of £15m or 14% over 2013.

The amounts shown in the table below represent the corporate income tax, or corporation tax or cash tax payments made by the Company and its subsidiaries during the year ended 30 September 2014. 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, £3m is the corporation tax paid in the year ended 30 September 2014. This is lower than may be expected due to the utilisation of losses brought forward from earlier years and tax depreciation (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 introduced by governments around the world 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	2014 £m	2013 £m
Australia	1	(2)
Belgium	24	21
Canada	1	–
Denmark	–	2
Dominican Republic	–	1
Finland	1	3
France	3	6
Germany	37	26
Greece	3	–
Italy	1	–
Mexico	3	2
Morocco	1	5
Netherlands	10	6
Norway	3	4
Portugal	3	1
Spain	5	12
Sweden	18	4
Turkey	6	–
United Kingdom	3	14
USA	3	–
Others (payments less than £1m)	(1)	5
Total	125	110

DIRECTORS' REPORT

Board of Directors as at 30 September 2014

1. Friedrich Jousen Non-Executive Chairman

<i>Age</i>	51
<i>Nationality</i>	German
<i>Appointment</i>	Friedrich Jousen joined the Board on 8 February 2013 as a Non-Executive Director and was appointed Non-Executive Chairman on 25 March 2013.
<i>Committee membership</i>	Member of the Nomination Committee.
<i>Key skills & experience</i>	Friedrich has extensive experience in driving global business performance, strategy and innovation.
<i>Career</i>	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'.
<i>External appointments</i>	Chief Executive Officer of TUI AG

2. Sir Michael Hodgkinson Non-Executive Deputy Chairman and Senior Independent Director

<i>Age</i>	70
<i>Nationality</i>	British
<i>Appointment</i>	Sir Michael Hodgkinson joined the Board of TUI Travel PLC on 28 June 2007 as Non-Executive Deputy Chairman and is the Senior Independent Director.
<i>Committee membership</i>	Chairman of the Nomination Committee and member of the Audit and Remuneration Committees.
<i>Key skills & experience</i>	Sir Michael has a wealth of industry knowledge and experience in strategic planning, business and leadership development and stakeholder management.
<i>Career</i>	Sir Michael joined the Board of First Choice Holidays PLC as a Non-Executive Director in January 2004 and became Chairman in March 2004. 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.
<i>External appointments</i>	Chairman of Keolis (UK) Limited and Non-Executive Director of Keolis/Go Ahead.

3. Peter Long Chief Executive

<i>Age</i>	62
<i>Nationality</i>	British
<i>Appointment</i>	Peter Long joined the Board on 28 June 2007 as Chief Executive.
<i>Key skills & experience</i>	A proven leader with unparalleled travel industry understanding and strong skill-sets in strategic planning, development and implementation.
<i>Career</i>	In November 1996 Peter was appointed Managing Director of Tour Operations at 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 2002 and plans to resign with effect from 31 December 2014.
<i>External appointments</i>	Senior Independent Non-Executive Director, Rentokil. President, Family Holidays Association. Member of The Tourism Council, a partnership between the UK Government and the tourism and hospitality sector.

4. Johan Lundgren Deputy Chief Executive

<i>Age</i>	48
<i>Nationality</i>	Swedish
<i>Appointment</i>	Johan Lundgren joined the Board on 21 December 2007, and was appointed Deputy Chief Executive in October 2011.
<i>Key skills & experience</i>	Johan has considerable travel industry experience and a proven track record in driving global business performance and change management.
<i>Career</i>	Having worked in the tourism industry since 1986, Johan is responsible for the Mainstream Sector of TUI Travel PLC. Prior to his appointment as Deputy Chief Executive, he was Managing Director of the Northern Region of TUI Travel's Mainstream Sector which includes the Source Markets UK & 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.

5. William Waggott Chief Financial Officer

<i>Age</i>	51
<i>Nationality</i>	British
<i>Appointment</i>	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.
<i>Key skills & experience</i>	Will's significant skill-sets include financial reporting/controls, strategic planning, financing and risk management.
<i>Career</i>	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.



6. Horst Baier Non-Executive Director

<i>Age</i>	58
<i>Nationality</i>	German
<i>Appointment</i>	Horst Baier joined the Board as a Non-Executive Director on 13 October 2009.
<i>Key skills & experience</i>	Horst has an in-depth knowledge of financial management and wide-ranging international and industry experience.
<i>Career</i>	Horst began his professional career in the Treasury Department of Continental AG, the German tyre manufacturer. Between 1994 and 1996, Horst was Finance Director for the Schickedanz Group based in Fürth. In 1996, he took over responsibility for the Treasury, Accounting and Tax Department at TUI Group GmbH. In 2007 Horst became a member of the Executive Board of TUI AG and has been the Chief Financial Officer of TUI AG since 2010.
<i>External appointments</i>	Member of the Executive Board & Chief Financial Officer of TUI AG.

7. Sebastian Ebel Non-Executive Director

<i>Age</i>	51
<i>Nationality</i>	German
<i>Appointment</i>	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.
<i>Key skills & experience</i>	Sebastian has extensive experience in driving business performance worldwide, operational effectiveness, IT, retail and financial reporting/controls.
<i>Career</i>	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.
<i>External appointments</i>	Chief Operating Officer, TUI AG.

8. Val Gooding Independent Non-Executive Director

<i>Age</i>	64
<i>Nationality</i>	British
<i>Appointment</i>	Val Gooding joined the Board on 7 February 2014.
<i>Key skills & experience</i>	Val has many years' experience in senior executive and non-executive roles where she has acquired considerable knowledge in corporate strategy, organisation development, marketing, customer service, operations and business turnarounds.
<i>Career</i>	Val spent 12 years working at BUPA, and left her role as Chief Executive in 2008, having transformed the business from a purely UK-based operation to a major international group with £5bn of revenues. Prior to joining BUPA, Val spent many years with British Airways where she held a number of senior roles including Head of Cabin Services, Head of Marketing, Director Asia Pacific and Director Business Units, where she was responsible for British Airways' retail shops, charter airline and tour operator businesses. She has served on the boards of several companies, including most recently Standard Chartered plc and J. Sainsbury plc.
<i>External appointments</i>	Non-Executive Chairman of Premier Farnell PLC and Non-Executive Director of Vodafone PLC.

9. Janis Kong Independent Non-Executive Director

<i>Age</i>	63
<i>Nationality</i>	British
<i>Appointment</i>	Janis Kong joined the Board on 29 May 2012.
<i>Committee membership</i>	Member of the Audit and Remuneration Committees.
<i>Key skills & experience</i>	Janis has extensive knowledge of the aviation industry. She also has considerable experience in retail, consumer products and risk management.
<i>Career</i>	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 was also Chairman of the Board of Trustees of Forum for the Future from April 2006 to July 2012 and, from February 2006 to July 2014, she was a non-executive director of VisitBritain.
<i>External appointments</i>	Non-Executive Director of Network Rail, Kingfisher PLC and Portmeirion Group PLC. Non-executive board member of Copenhagen Airports A/S.

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DIRECTORS' REPORT

Board of Directors as at 30 September 2014

continued

10. Coline McConville Independent Non-Executive Director

<i>Age</i>	50
<i>Nationality</i>	Australian
<i>Appointment</i>	Coline McConville joined the Board on 21 September 2011.
<i>Committee membership</i>	Chairman of the Remuneration Committee and member of the Audit Committee.
<i>Key skills & experience</i>	Coline has a wealth of international experience with a background in management, marketing, media and strategic consulting.
<i>Career</i>	Coline was Chief Executive (Europe) at Clear Channel International Limited for 10 years where she was responsible for operations across 58 countries including the UK, France, Italy and Spain. She began her career in management consultancy, working with both McKinsey & Co in London and the LEK Partnership in Munich. During her career Coline has gained considerable remuneration committee experience – she was Remuneration Committee Chairman for Specialist Divisions at HBOS plc as well as being a committee member for a number of public companies. Coline also served on the Board of Shed Media plc and as an adviser to the private equity firms Apax and Actis. She is a law graduate with an MBA from Harvard (Harvard Fellow, Baker Scholar).
<i>External appointments</i>	Non-Executive Director of Wembley National Stadium Limited, UTV Media PLC and Inchcape PLC.

11. Minnow Powell Independent Non-Executive Director

<i>Age</i>	60
<i>Nationality</i>	British
<i>Appointment</i>	Minnow Powell became a Non-Executive Director in April 2011.
<i>Committee membership</i>	Chairman of the Audit Committee and member of the Nomination Committee.
<i>Key skills & experience</i>	Minnow has extensive experience in external and internal audit, risk management, financial controls and corporate/financial reporting in a wide variety of sectors.
<i>Career</i>	During his 35 years at Deloitte, Minnow 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.
<i>External appointments</i>	Non-Executive Director and Chairman of the Audit Committee of SuperGroup PLC.

12. Dr Erhard Schipporeit Independent Non-Executive Director

<i>Age</i>	65
<i>Nationality</i>	German
<i>Appointment</i>	Dr Erhard Schipporeit joined the Board as a Non-Executive Director on 29 October 2007.
<i>Key skills & experience</i>	Erhard has many years' experience of international industry, particularly in financial reporting/controls and risk management.
<i>Career</i>	Erhard 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 and 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.
<i>External appointments</i>	Non-Executive Director of SAP SE, Deutsche Boerse AG, Talanx AG, Hanover Re SE, Fuchs Petrolub SE, BDO AG and Fidelity Funds SICAV.

13. Dr Albert Schunk Independent Non-Executive Director

<i>Age</i>	73
<i>Nationality</i>	German
<i>Appointment</i>	Dr Albert Schunk joined the Board as a Non-Executive Director on 29 October 2007.
<i>Key skills & experience</i>	Albert has comprehensive knowledge of the German market and experience in human resources and the wider travel industry.
<i>Career</i>	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.
<i>External appointments</i>	Member of the European Economic and Social Council in Brussels



Corporate Governance report

Chairman's Governance Statement

The Board of TUI Travel PLC believes that effective corporate governance is integral to the successful delivery of our business goals and is therefore a key contributor to the long-term success of the Company. We remain committed to maintain standards by ensuring that a robust framework of systems and controls is in place and refreshed on a continual basis. We have made good progress across the governance agenda – some of which is highlighted in the following pages. We know that processes and procedures need to be reviewed and improved on an ongoing basis and our aim is that they become embedded in the daily lives of management throughout the Group.

The Board's role is to set the strategy for the Group and, to this end, we work closely with the executive team to give support and advice. We also provide challenge, where appropriate, in order to drive continued and sustained improvement.

For this year, the Board had agreed to put in place new initiatives in respect of succession planning – as well as our annual talent management review, we planned a more detailed approach to succession planning for the Independent Non-Executive Directors. However, in view of the proposal for the Company to merge with our majority shareholder TUI AG, these initiatives were put on hold and will now be reviewed upon completion of the merger.

As Chairman, I am fortunate to be able to call on a broad range of skills and perspectives in the board room from colleagues with a deep understanding of the challenges which face us now and in the future.

Friedrich Jousen

Chairman

Compliance – UK Corporate Governance Code Provisions

Throughout the reporting period the Company has complied with all relevant provisions of the UK Corporate Governance Code (September 2012) (the Code) including its main principles, except in respect of Code Provision A3.1 – the Chairman should on appointment meet the independence criteria set out in Code B1.1 (see explanation on page 69).

Leadership

For Audit Committee Report see page 73, Nomination Committee Report see page 77 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 Annual General Meeting (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 32 and 33.

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.	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 have 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 – <i>Chairman</i> Sir Michael Hodgkinson Janis Kong Coline McConville Val Gooding	Members: Coline McConville – <i>Chairman</i> Janis Kong Sir Michael Hodgkinson Val Gooding	Members: Sir Michael Hodgkinson – <i>Chairman</i> Friedrich Jousen Minnow Powell Val Gooding

DIRECTORS' REPORT

Corporate Governance report

continued

The key elements of the Company's internal control and risk management framework 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 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 accords with the Code; and
- 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 annually. 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. During the year advice was sought by the Independent Non-Executive Directors as a group from Lazard and Herbert Smith Freehills in relation to merger discussions. Advice was also received from Bank of America Merrill Lynch and Barclays.

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.

A secure iPad-based paperless meeting system, which was introduced in 2012, continues to be rolled out across the Group and helps our drive to reduce the impact of our operations on the environment. As well as the Board and its Committees, this has now been adopted in numerous businesses across the Group.

Attendance of Directors at meetings of the Board and its Committees

	Board Meetings	Nomination Committee Meetings	Audit Committee Meetings	Remuneration Committee Meetings	Independent Director Meetings
Friedrich Jousen (Chairman)	7(8)	3(4)	–	–	–
Sir Michael Hodgkinson (Senior Independent Director & Deputy Chairman)	8(8)	4(4)	8(8)	8(8)	3(3)
Executive Directors					
Peter Long (Chief Executive)	8(8)	–	–	–	–
Johan Lundgren (Deputy Chief Executive)	8(8)	–	–	–	3(3)
Will Waggott (Chief Financial Officer)	8(8)	–	–	–	3(3)
Volker Böttcher ¹	0(2)	–	–	–	–
Independent Non-Executive Directors					
Tony Campbell ¹	1(2)	–	–	–	–
Val Gooding ²⁽³⁾	5(5)	0(0)	2(2)	3(3)	3(3)
Janis Kong	8(8)	–	8(8)	8(8)	3(3)
Coline McConville	8(8)	–	7(8)	8(8)	3(3)
Minnow Powell	8(8)	4(4)	8(8)	–	3(3)
Erhard Schipporeit	7(8)	–	–	–	2(3)
Dr Albert Schunk	8(8)	–	–	–	3(3)
Harold Sher ⁴	8(8)	4(4)	–	–	2(2)
Non-Executive Directors (not considered independent)					
Horst Baier	7(8)	–	–	–	–
Sebastian Ebel	8(8)	–	–	–	–
Vladimir Yakushev ⁵	0(0)	–	–	–	–

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

Notes:

- 1 Resigned on 16 December 2013
- 2 Appointed to the Board with effect from 7 February 2014
- 3 Joined the Nomination Committee on 18 September 2014
- 4 Retired on 18 September 2014
- 5 Appointed on 7 February 2014 and resigned on 24 March 2014

Dr Erhard Schipporeit was unable to attend meetings on 26 June 2014 as they conflicted with commitments already in his diary. Between June and September 2014, there were three meetings of the Independent Directors to deal with matters relating to the merger between the Company and TUI AG. A fourth meeting was also held on 10 October 2014. The Directors considered independent in this context are Sir Michael Hodgkinson, Val Gooding, Janis Kong, Johan Lundgren, Coline McConville, Minnow Powell, Erhard Schipporeit, Dr Albert Schunk and Will Waggott – i.e. excluding Peter Long (member of the Executive Board ('Vorstand') of TUI AG), Friedrich Jousen and Horst Baier (also members of the Vorstand) and Sebastian Ebel (member of the Management Board of TUI AG).

There were two meetings of the Non-Executive Directors, without management present, held in December 2013 and September 2014. These focused primarily on the effectiveness of the Board.

Effectiveness

Board composition

Our Board consists of 13 Directors – 12 of whom served throughout the year. At 30 September 2014, in addition to the Chairman, Friedrich Jousen, there were three Executive Directors and nine Non-Executive Directors – seven of whom are considered to be independent. Val Gooding was appointed as an Independent Non-Executive Director with effect from 7 February 2014 and Vladimir Yakushev was also appointed as a Non-Executive Director on 7 February 2014. He resigned on 24 March 2014 without attending any Board meetings. Volker Böttcher and Tony Campbell resigned and retired respectively on 16 December 2013 and Harold Sher retired on 18 September 2014.

Independence of Non-Executive Directors

The Chairman, Friedrich Jousen, did not comply with the independence criteria of the Code at the time of his appointment. This is because Mr Jousen is the Chief Executive of TUI AG – a 53.72% shareholder of the Company as at 30 September 2014. Horst Baier and Sebastian Ebel are also not considered to be independent as they are both members of TUI AG's Executive Board.

Details of the Chairman's other significant commitments are given in his biography on page 64. 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.

The Non-Executive Directors considered to be independent are Sir Michael Hodgkinson, Val Gooding, Janis Kong, Coline McConville, Minnow Powell, Dr Erhard Schipporeit and Dr Albert Schunk. Each year all the Directors complete a Conflicts of Interests and Material Interests in Contracts/Arrangements declaration which captures those matters which could affect their independence and such disclosures, if any, are included in this report.

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 2014. 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 64 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
- challenging constructively 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 2015 Notice of the 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 effectiveness of the Directors is considered as part of the annual Board evaluation process and any issues arising are addressed appropriately by the Chairman. The reasons why the Company considers that each Independent Non-Executive will be an effective Director are given below.

Val Gooding, Janis Kong, Coline McConville and Minnow Powell are considered to be effective Directors due to their breadth of experience and ability to provide appropriate challenge in Board debate. As part of the initial recruitment process, external consultants were used to conduct a search for suitable candidates and the Nomination Committee considered and concluded that each of them met the independence provisions of the Code. They have no relationships, transactions or arrangements that are required to be disclosed pursuant to LR13.8.17(1).

Erhard Schipporeit and Albert Schunk are considered to be effective Directors due to their particular industry experience. At the time of their appointments, the Nomination Committee concluded that they met the necessary independence criteria. Albert Schunk is an adviser to RIU, the Spanish international hotel group, with which the Company, and a number of its subsidiaries, have material contractual arrangements. RIU Group is also a shareholder of TUI AG, a controlling shareholder of the Company. Erhard Schipporeit has no relationships, transactions or arrangements that are required to be disclosed pursuant to LR13.8.17(1).

Sir Michael Hodgkinson was the independent Chairman of First Choice Holidays PLC and was therefore considered to be independent on his appointment as the Senior Independent Director of the Company following the merger with the Tourism Division of TUI AG in 2007. He is considered to be effective due to his considerable experience in executive and non-executive positions. He has no relationships, transactions or arrangements that are required to be disclosed pursuant to LR13.8.17(1).

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.

For the purposes of the Listing Rules, TUI AG is a controlling shareholder of the Company (that is, a person or group of people acting together which exercises or controls more than 30% of the voting rights in the Company). Because the Company has a controlling shareholder, the Listing Rules require the re-election of the Independent Directors to be approved at the AGM by a majority of the votes cast by both: (i) the shareholders of the Company as a whole; and (ii) the independent shareholders of the Company (that is, all of the shareholders of the Company entitled to vote on the election of the Independent Directors excluding any controlling shareholder).

At the AGM, the Company will therefore propose the resolutions in relation to the re-election of the Independent Directors as ordinary resolutions on which all shareholders are entitled to vote, but the Company will separately count the number of votes cast by independent shareholders in favour of such resolutions (as a proportion of the total votes of independent shareholders cast) to determine whether the threshold referred to in (ii) above has been satisfied. The Company will announce whether each threshold has been satisfied in respect of each resolution for the re-election of an Independent Director.

Under the Listing Rules, if a resolution to re-elect an Independent Director is not approved at the AGM by both a majority of the votes cast by the shareholders as a whole and by the Company's independent shareholders (but one of these two thresholds is satisfied), the Company is entitled to propose a further resolution for the re-election of that Independent Director for the approval of the shareholders as a whole by ordinary resolution. If the Company proposes such a resolution, the meeting at which the resolution is voted upon must be held at least 90 days after (but within 120 days of) the AGM.

Accordingly, if any resolution to re-elect an Independent Director is not approved by a majority vote of the Company's independent shareholders at the AGM, the relevant Independent Director(s) will be treated as having been re-elected only for the period from the date of the AGM until the earlier of: (i) the close of any general meeting of the Company,

DIRECTORS' REPORT

Corporate Governance report continued

convened for a date at least 90 days after (but within 120 days of) the AGM, to propose a further resolution to re-elect him/her; (ii) the date which is 120 days after the AGM; and (iii) the date of any announcement by the Board that it does not intend to hold a second vote. In the event that the Independent Director's re-election is approved by a majority vote of all shareholders at a second meeting, the Independent Director will then be re-elected until the next AGM.

If any resolution to re-elect an Independent Director is not approved by the shareholders of the Company as a whole at the AGM but is approved by the independent shareholders, the relevant Independent Director(s) may be re-appointed by the Board as a Director from the date of the AGM until the earlier of: (i) the close of any general meeting of the Company, convened for a date at least 90 days after (but within 120 days of) the AGM, to propose a further resolution to re-elect him/her; (ii) the date which is 120 days after the AGM; and (iii) the date of any announcement by the Board that it does not intend to hold a second vote.

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 5 February 2015.

The Chairman, in conjunction with the Company Secretary, ensures that a full, formal and tailored induction to the Company is made available for all new Directors on appointment and this is updated on a regular basis. The Company Secretary is on hand to answer any questions which may arise. During the year, Val Gooding and Vladimir Yakushev were both given Induction & Training Manuals and Val also received a full and tailored induction programme. She met with members of the senior management team (including the Chief Executive, Deputy Chief Executive, Chief Financial Officer, Company Secretary and senior managers from IT, HR, Corporate Communications, Treasury, Aviation and Internal Audit). Meetings were also arranged for her with various Company advisers (i.e. brokers, auditors and lawyers).

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. The evaluation for the years ended 30 September 2013 and 2014 were both 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.

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. As disclosed in last year's annual report, the Board and its Committees considered the reports of their effectiveness at their meetings in September 2013. Following on from those initial discussions, the Chairman had conversations with individual Directors to highlight any points for further consideration.

Following these conversations, various positive changes were agreed: (1) the style/format of presentations was revised to provide greater clarity and focus; (2) a review of individual skillsets of the Directors was undertaken to identify any potential gaps; (3) a more structured approach to reviewing the strategic plan; and (4) a more formalised and transparent approach to succession planning – particularly in respect of the appointment of Independent Non-Executive Directors. In addition, to give greater visibility of individual senior managers to the Board, and to provide a forum for general discussion, it was decided that Managing Directors would be invited to attend Board dinners and give an informal presentation on their businesses. During 2014, informal presentations were given by the Managing Directors of four significant business areas.

One of the outcomes of the 2013 evaluation process led to a review of the number and appropriateness of questions in the survey. As a result of this, a full review of the questions was undertaken prior to the launch of the survey in April 2014. As the 2013 review had been a much more in-depth exercise than in previous years, fewer issues were raised and these were presented, and considered, at the June 2014 meeting of the Board. Two outcomes were (1) to carry out more post-project/acquisition appraisals; and (2) to put in place a more rigorous approach to succession planning for Non-Executive Directors.

In accordance with the Code, the intention had been to facilitate next year's evaluation by way of personal interviews with an independent external adviser but this has been put on hold until the merger completes.

In March 2014, the Non-Executive Directors met to appraise the Chairman, Friedrich Jousen, who had just completed one year in his role as Chairman. It was unanimously agreed that meetings were chaired in an open and objective manner which allowed Board members the opportunity to express their views.

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 Reports can be found on pages 52 to 61, 73 to 76, 77 and 79 respectively.

Legal and regulatory compliance

An annual Group (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 Trade Restrictions (sanctions and controls against financial crime). 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 and drive the progress of businesses in these vital areas. From 2015, questions on the approach to human rights by Group businesses will be included.

Anti Bribery & Corruption (ABC)

The Company has become the first in the travel industry to join the esteemed anti-corruption charity Transparency International as a member of its Business Integrity Forum.

88% of employees across the Group have undergone risk-focused, travel-industry-specific training on their responsibilities under local and international ABC legislation. Updated ABC, Business Gifts & Hospitality, Conflicts of Interest and Investigation policies have been communicated and guidance on third party due diligence and facilitation payments distributed. A Compliance intranet page has been created to give greater online visibility of Compliance initiatives, regular bulletins are distributed to stakeholders on legal developments and a 'Compliance Champion of the Year' award inaugurated to recognise achievements in the field. A 'Say No' software app has been developed in association with the Institute of Business Ethics to give employees practical assistance in difficult situations. Our ABC due diligence around high-risk profile contracting has been improved during the year. We are proud of our 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 24). Anti-Bribery responsibilities are now included in new supplier contracts. Our Group (Legal & Regulatory) Compliance team gives legal advice on high-risk negotiations and transactions where necessary.

Group Audit Services administer a yearly Conflict of Interest declaration for 3,500 senior managers which has been extended to new joiners in 2014 and now includes an explicit commitment to legal and regulatory compliance and business integrity in accordance with TUI Values.

Whistle-blowing

Whistle-blowing hotlines are now fully operational in the UK, USA, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Costa Rica, Croatia, Cyprus, Denmark, Dominican Republic, Egypt, Finland, France, Germany, Greece, Hong Kong, India, Indonesia, Italy, Jamaica, Malaysia, Malta, Mauritius, Mexico, Morocco, Netherlands, Netherlands Antilles, Norway, Peru, Poland, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Arab Emirates, Vietnam and the British Virgin Islands.

This covers our 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. These confidential hotlines and webmail reporting facilities now cover 99.5% 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 Group (Legal & Regulatory) Compliance Department works in conjunction with Group Audit Services to investigate and advise on any incidents around the Group.

International TUI Travel whistle-blowing policies make it clear that employees can approach senior executives, or Group Audit Services, to make reports and emphasise that anyone making a report with honest intentions need not fear any adverse consequences even if the information provided proves to be unfounded. Colleagues are also encouraged to approach Compliance through a dedicated Compliance email address, Human Resources or line managers with any issues they may face.

Competition compliance

A comprehensive competition training, knowhow and support programme is in the process of being delivered 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. Over 85% of our top-tier senior managers have been trained in their Competition Law obligations from both an EU and a local law perspective in face-to-face seminars for senior management, and e-learning for other colleagues (currently being rolled out). It requires colleagues to re-affirm their commitment to leading responsibly and competing vigorously in all our markets, and to contact Group Legal or Group Compliance with any concerns.

Data protection

The security of customer and employee data is a key Group priority. A Group Data Protection and Privacy programme has been initiated with a Data Privacy Network of data protection officers around the Group led by our Chief Data Protection Officer. A new senior Data Protection Counsel has been appointed who works closely with IT Security functions. Group policies on data protection and retention have been updated to reflect the changing regulatory environment and to facilitate secure international data transfers. Data privacy professionals sit on the Architecture Governance boards of specific projects. A data protection e-learning and poster campaign has been designed for roll out in 2015.

Sanctions watch

The Group (Legal & Regulatory) Compliance team updates relevant businesses and, where necessary, assists in communications to investors and financial institutions on changing US and EU sanctions obligations and trade restrictions affecting local businesses, giving legal advice and training where appropriate.

DIRECTORS' REPORT

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). Sir Michael Hodgkinson also met with a number of major shareholders to discuss the implications of the proposed merger with TUI AG.

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;
- the election or re-election by shareholders of an Independent Director will require approval both by a majority of the votes cast by the shareholders as a whole and by the Company's independent shareholders (but, if one of these two thresholds but not both is satisfied, the Company is entitled to propose a further resolution (to be voted upon at least 90 days but within 120 days after the date of the AGM) for the re-election of that Independent Director, for the approval of the shareholders as a whole by ordinary resolution);
- 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.

The Directors consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for the Company's shareholders to assess the Company's performance, business model and strategy.

Audit Committee

Audit Committee

The Audit Committee comprised five Independent Non-Executive Directors at 30 September 2014 – Minnow Powell, Val Gooding, Sir Michael Hodgkinson, Janis Kong and Coline McConville. Four were members throughout the year and Val Gooding was appointed on 1 July 2014. 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 eight times during the year. The Chairman of the Audit Committee reports to the Board on how the Committee discharges 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 the 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 reviewed and amended our Terms of Reference with reference to the Code and guidance from the Institute of Chartered Secretaries & Administrators (ICSA). We decided that oversight of the Annual Report & Accounts and whether it is fair, balanced and understandable should be a matter for the Board as a whole. The updated terms of reference were approved by the Board and 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 in order to encourage transparency and accountability, together with open discussion and debate. Management invited to present to the Committee included:

- the Managing Directors and Finance Directors of our major businesses;
- the Project Managers and Project Sponsors of our major projects (including additional updates where the projects were significant and complex);
- Group Accounting (including new accounting developments and controls over prepayments);
- Group Treasury (including Group Treasury policy and counterparty risks);
- Group Tax (including the Group's overall taxation strategy and the key factors for the Group's overall tax position and forecasts for the future tax charge and cash taxes); and
- Group Insurance (including related risks and mitigation).

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.

The activities of the Committee members 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.



Minnow Powell
Chairman

DIRECTORS' REPORT

Audit Committee continued

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 quarterly announcements relating to the Company's financial performance.

In last year's Annual Report we reported on judgements relating to Aircraft transactions and Denied Boarding Compensation 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, discussed and challenged detailed papers received from management and took account of the views of the external auditors.

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.

Again this year 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, i.e. rolling claim rates and pay-out ratios in each of the source markets, whilst noting that these factors may change with future experiences.

Going concern

We assessed our available facilities, including those to be made available by TUI AG when the merger completes, 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 2014 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. We reviewed the recommendation made by external advisers, who were engaged to calculate the weighted average cost of capital using more robust long-term data to reduce the impact of short-term stock market volatility. We examined movements against the previous year in the risk premium and long-term growth rate for each cash generating unit, reviewed the detailed WACC calculations along with the explanations provided and noted that the impairment model was consistent with the long-term planning approved by the Board in September 2014. We were satisfied with the quality of the work presented.

The annual impairment review has not resulted in an impairment charge this year.

We also reviewed and approved the sensitivities applied by management which were consistent with 2013 and the 'reasonably possible' change to model inputs including the related disclosure, as required by IAS 36.

Liabilities

The business model is such that it is the level of provisions and accruals and any judgements thereon which can have a significant impact on the income statement. Detailed analysis of the key judgements was received by management to support the recognition of such balances on the year-end balance sheet, and it is an area which our Group auditors focus on in their work and discuss with us. We are satisfied that the balances reported are materially accurate.

In addition, we examined the specific 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.

Hotel prepayments

Twice a year, the Audit Committee reviews the level of prepayments made to hoteliers and assesses their recoverability with reference to the expected volumes of future trading with, and the credit-worthiness of, those hoteliers.

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. Items included the pension credit arising in the UK&I as a consequence of offering to members and pensioners of the defined benefit pension schemes the option to swap future higher pension increases for a higher initial pension with lower annual increases; and restructuring costs in TUIfly as heavy maintenance work is being outsourced to other Group companies and to third parties.

The risks relating to the VAT position of Hotelbeds Product SLU and the decision to regularise the position were taken by the Board as a whole.

The performance and future prospects of our joint venture operating in the Russian and Ukrainian source markets were also considered by the Board as a whole. As a result of this review, £28m of loans made to the joint venture were provided for and disclosed separately.

Tax

We reviewed the judgement of management in assessing whether deferred tax assets will be utilised in future periods and agreed with the balances reported on the year-end balance sheet. In respect of German Trade Tax we once again reviewed the judgement made by management who also requested an update from external advisors on the opinion provided last year. The update continued to support the Group position that, with the risk more than minimal but less than 50%, the disclosure as a contingency remains appropriate at this time.

Profit estimate

The Independent Directors reviewed the schedule and activities proposed by management and PwC to ensure effective reporting in August and October of the estimated year end result in accordance with Rule 28 of the City Code. The Independent Directors reviewed, on each occasion, both the process itself and the key judgements. We note that the actual results are consistent with the estimates made.

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.

We also reviewed the key controls (preventative and detective) in place to identify and mitigate the risk of material misstatement due to non-compliance with laws and regulations per the Financial Reporting Council's report (Audit Quality Thematic Review dated January 2014) and reviewed the risks to the business arising from fraud and the associated controls management have in place to minimise those risks.

We have seen continued improvement in the transparency and active ownership of risk and control 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 2015.

First line of defence

Management

We continue to spend 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.

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 have noted the appetite of the Group Risk Management function to drive continuous improvement in the risk management competence and capability of the Group and the positive results that have been achieved in ensuring transparency, alignment and accountability through the organisation. We have received regular updates on the work of the Group Risk Management Committee and noted the quality of the risk discussions that have taken place during the year.

While significant improvements have been made in the year, this will continue to be a strong area of focus during the coming year.

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 up to four times a year.

- Group Financial Compliance. Created in 2011 to provide assurance that individual company balance sheets across the Group are fairly stated and minimum financial controls are adhered to 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 identify, assess and respond to legal and regulatory risk across the Group.

- We received feedback during the year on the progress being achieved in relation to preventative and detective controls implemented during the year and activity planned for the coming year relating to Anti-Bribery & Corruption, Competition, Data Protection, Due Diligence and Anti-Money Laundering, Sanctions and Human Rights legislation.

- 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 noted the progress being achieved in relation to the development of the IT control environment and the strengthening of the team. We reviewed the Group's compliance with PCI DSS and the ongoing work and necessary work on improving the effectiveness of Business Continuity Planning (BCP) and Disaster Recovery (DR). We will continue to monitor progress during this coming year.

While there is still further work to do, we noted that the three Group Compliance functions and the three functions that make up Group Audit Services (Risk, Internal Audit and Fraud) work well together to ensure the free flow of relevant information between them and have developed 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, a third party consultant, for key finance management and the role of the Finance Academy to educate and train our employees.

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 Group Audit Services in 2012. The function continues to innovate and we have noted the close and constructive working relationship that has developed between Internal Audit and the business, as evidenced in annual and post audit projects feedback surveys (which are reported in full to the Audit Committee) and in comments made by management directly to the Committee. We believe this reflects well both on the function and on management.

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, the quality of management engagement with Internal Audit and key internal audit findings and the associated response.

The effectiveness of Internal Audit

Again this year we requested a review on the effectiveness of Internal Audit. The approach was consistent with the previous two years, covering the effectiveness of the function (positioning, processes, systems and people). Effectiveness was assessed both from an internal perspective (through an independent review of the function benchmarked against best practice) and from an external perspective (the perception of 12 senior financial personnel/senior management and seven Board members). We were pleased to note that the function continues to perform strongly.

DIRECTORS' REPORT

Audit Committee

continued

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.

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 although, this year, we adopted a new survey. This survey was completed by 13 senior financial personnel and senior management closely involved in the year-end reporting process and four members of the Audit Committee and a shorter survey was completed by operating business FDs and Group department heads. The surveys covered 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. Overall, the survey results were positive about PwC's performance. 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 2015. 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 right.

Audit plan and approach

During the year we reviewed PwC's benchmarking of our organisation's audit risks relative to the FTSE 100 and the audit strategy developed as a result. We noted the risk-based audit approach, key areas of audit focus, materiality 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. We welcomed PwC's assessment that the risk of material misstatement in the Group accounts has reduced over the last two years but we noted and agreed with their continued emphasis on substantive as opposed to controls testing.

The Committee holds a private session with the Lead Partner 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 been our auditors for four years). In the event that the merger with TUI AG does not complete, we will continue to review the performance of PwC formally on an annual basis and, although not required by the UK Code to undertake a formal tender process until 2020, will continue, during this remaining six-year period, to keep this under close review in the best interests of our shareholders.

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 £1.9m was spent on non-audit fees during the year (being 28% of audit and audit related fees). Fees in respect of the merger with TUI AG are being borne by that company. Further details of non-audit services are set out in Note 7. Significant expenditure that was authorised in the year, i.e. £250,000 or over, is outlined below:

Non-Audit Services – Significant Expenditure Authorised

Business area	Work undertaken	Rationale for use of the external auditor	£000s
Group	Extension of the project to benchmark the Group's IT infrastructure	Detailed knowledge and understanding of the business	250

Minnow Powell

Chairman

3 December 2014

Nomination Committee

The Committee's main focus is to strengthen, balance and understand the range of skills, experience and diversity of the Board, its Committees and key roles below Board level.

During the year the composition of the Board and its Committees has been refreshed. Val Gooding was appointed as an Independent Non-Executive Director with effect from 7 February 2014. She was also appointed to both the Audit and Remuneration Committees on 1 July 2014 and the Nomination Committee on 18 September 2014. We are pleased that female representation on the Board is now at 23% (2013: 13%). It had been the Board's intention to refresh its membership further by the end of 2014 but, because of the merger with TUI AG, this has been put on hold for the time being. In addition, the recruitment process for replacing Harold Sher, following his retirement as a Director on 18 September 2014, has also been postponed.

Appointments and resignations during the year

On 16 December 2013 there were two resignations from the Board – Volker Böttcher (Executive Director) and Tony Campbell (Independent Non-Executive Director). Volker joined the Board of TUI Travel following the merger between First Choice Holidays PLC and the Tourism Division of TUI AG in 2007. He was the Managing Director of the Group's German Specialist Division and, prior to that, held a number of senior roles including Managing Director, Central Europe. Volker resigned from the Company to pursue a career in the field of academia. Tony Campbell also joined the Board following the merger in 2007. His wealth of knowledge and experience in retailing/online distribution was greatly valued and his input in the Board's deliberations will be missed.

In relation to the appointment of Val Gooding, an extensive search of suitable candidates was carried out by an independent external agency – The Miles Partnership – which has no other connection with the Company. Prior to commencing the interview process the balance of skills, experience, independence, diversity, the working of the Board as a unit and its collective knowledge had been taken into consideration when preparing a description of the role and capabilities required. Consideration was also given to whether candidates would have sufficient time available to devote to their duties. The Committee concluded that Val was an excellent candidate and would contribute significantly to the Board's deliberations because of her wide breadth of experience in executive and non-executive positions over many years. It was also concluded that Val was independent in both character and judgement and therefore met the independence criteria laid out in the provisions of the UK Corporate Governance Code. Following a review of her other commitments, it was felt that she would have sufficient time to devote to her duties.

Vladimir Yakushev was appointed to the Board as a Non-Executive Director on 7 February 2014. Vladimir was the managing partner of S-Group Capital Management (S-Group) – the Company's joint venture partner in Russia – and it was felt that his background, knowledge and skills in the Russian market would enhance the geographical diversity of the Board. He was not considered to be independent on appointment. Following his resignation from S-Group, he resigned from the Board on 24 March 2014 having not attended any meetings.

As mentioned above, Harold Sher retired from the Board on 18 September 2014, having also joined at the time of the merger in 2007. The Board will miss his wise counsel and valued contribution over the last seven years and wish him a long and happy retirement.

Composition of the Committee

As at 30 September 2014, 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), Val Gooding (Independent) and Friedrich Joussen (Shareholder). Harold Sher (Independent) was also a member of the Committee until his retirement on 18 September 2014.

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.



Sir Michael Hodgkinson
Chairman

DIRECTORS' REPORT

Nomination Committee

continued

Committee activities

During the year two new appointments were made to the Board – Val Gooding and Vladimir Yakushev (although the latter subsequently resigned on 24 March 2014 and did not attend any Board meetings).

Four meetings of the Nomination Committee took place – in October and December 2013 and in March and September 2014. The following matters were considered:

October 2013:

The Committee spent a considerable amount of time reviewing the individual skillsets of Board members to enable us to ascertain where there could be gaps – either now or in the future. Following this debate, the Directors' biographies were updated – see page 64 for full details. A more robust process was also agreed particularly in respect of the recruitment of Independent Non-Executive Directors.

December 2013:

The appointments of Val Gooding and Vladimir Yakushev as additional Non-Executive Directors were approved.

March 2014:

Additional three-year terms for Minnow Powell and Coline McConville were approved.

Specific guiding principles for the recruitment process relating to Independent Non-Executive Directors and Executive Directors were considered and approved. For Independent Non-Executive Directors this included:

- the use of executive search consultants who have signed up to the voluntary Code of Conduct on gender diversity and best practice;
- matters to take into account when preparing a role profile; and
- consideration of succession planning for Independent Non-Executive Directors as part of the annual talent/succession planning review. For Executive Directors, the Committee agreed to improve the Non-Executive Directors' visibility of senior executive succession planning and leadership development.

September 2014:

Talent management and succession planning for key senior management roles was reviewed. The focus was on a structured approach to performance and the development of talented individuals. It had been the intention to consider the refreshment of the Independent Non-Executive Directors at this meeting but, in view of the merger, this was postponed as detailed above.

Diversity

Our diversity objectives were agreed in 2012 and these were considered again at the September 2014 meeting and confirmed as detailed below:

- To achieve at least 25% female representation among the Board's membership by 2015;
- To ensure that at least half of the initial applicant pool for Board appointments consists of women;
- To engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice;
- To report annually against these objectives and other initiatives taking place within the Company which promote gender, international, ethnic and other forms of diversity; and
- To report annually on the outcome of the Board evaluation, the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company.

As at 30 September 2014, the percentage of female representation among the Board's membership was 23% accounting for three of 13 Directors (2013: 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

The results of the Committee's effectiveness survey were reviewed by the Board at its meeting in June 2014. No major issues were raised.

Sir Michael Hodgkinson

Chairman & Senior Independent Director
3 December 2014

Remuneration Committee

I am pleased to introduce the Directors' Remuneration Report for the year ended 30 September 2014.

Directors' Remuneration Policy

Last year, we made a number of changes to our Executive Director remuneration framework. These were set out in our Remuneration Policy Report, which was subject to a binding vote at our 2014 AGM. As a Committee, we were pleased with the level of support the Policy Report received and would like to thank our shareholders for this.

We are not proposing to make any changes for the year ending 30 September 2015 and therefore the Policy approved last year will remain in force. For convenience, we have reproduced the Policy on pages 81 to 88.

I would like to highlight that the Policy relates to TUI Travel PLC and therefore we will remain subject to its provisions whilst we remain an independent Company. Once the merger with TUI AG completes, the Policy will cease to apply from the date of the merger onwards.

The aims of our policy are:

- to provide a package that is simple and transparent to shareholders;
- 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 performance-related reward;
- to align the Executive Directors' interests with those of shareholders over the long term by building a significant shareholding in our business;
- to set the total remuneration package at a level that reflects the competitive markets in which the Group operates;
- to enable recruitment, retention and stability; and
- to reinforce a high-performance culture throughout the Group.

We believe that these principles are fundamental in ensuring that our remuneration framework is fit for purpose and provides an appropriate alignment between pay and performance.

Committee activities during the year

TUI AG merger

Since the summer of 2014, the Committee has been busy considering the impact of the merger on senior management remuneration at TUI Travel. As part of these discussions, Sir Mike Hodgkinson, our Senior Independent Director, has met with a number of major shareholders to discuss their expectations regarding the merger, including from a remuneration perspective. We have listened to shareholders' views and have fed these into our discussions, both internally and during our conversations with representatives of TUI AG.

Items of discussion for the Committee in relation to the merger included:

- the treatment of outstanding employee share awards;
- input to the TUI AG Supervisory Board regarding corporate governance expectations and remuneration arrangements for the Executive Directors under the combined Group; and
- communication with impacted TUI Travel individuals regarding the merger negotiations and any remuneration implications.

As a Committee, we are firmly of the view that no share awards should automatically vest as a result of the merger. As such, Performance Share Plan (PSP) and Deferred Annual Bonus Scheme (DABS) awards granted in 2012 and 2013 will remain outstanding and will continue in line with their original vesting timeframes and with performance conditions attached. Following completion, some performance conditions may need to be amended to ensure that the targets remain appropriate in the combined Group.

The 2011 DABS and PSP awards will vest in December 2014 in accordance with their original schedule.

Under the merger, the combined Group will be a German-domiciled company. During our discussions with TUI AG representatives we have provided input on UK institutional investor, advisory body and shareholder expectations regarding corporate governance best practice. As an example, the Committee notes the revised UK Corporate Governance Code, which was released by the Financial Reporting Council in September 2014 and applies to reporting years beginning on or after 1 October 2014. Following the year-end, we have been considering the implications of the changes, particularly in relation to clawback provisions. We recognise the importance of companies being able to recover amounts which have been paid out where it becomes clear that they should not have been, and we have discussed potential approaches for TUI Travel, which would augment our current malus provisions. TUI AG is currently considering the framework for senior management remuneration, and this will include discussions around the potential inclusion of clawback provisions.



Coline McConville

DIRECTORS' REPORT

Remuneration Committee continued

Group Management Board review

Following the review of Executive Director remuneration in 2013, we have extended the framework across the full Group Management Board (GMB). In aligning remuneration arrangements across our senior team, we have adopted a consistent approach to remuneration at the top of our business. This policy focuses the senior management team on key measures of business performance, ensuring that all individuals are focused on the same corporate goals.

Volker Böttcher

During the year we considered the arrangements for Volker Böttcher, who stood down from the TUI Travel PLC Board as an Executive Director on 16 December 2013. He remains employed within the TUI Travel PLC group of companies until 31 December 2014.

Pay outcomes in the year ended 30 September 2014

The Company has continued to perform strongly, led by the executive team, and the remuneration received for the year ended 30 September 2014 recognises this strong performance.

We have delivered another year of out-performance against our growth roadmap achieving:

- an underlying operating profit growth of 11% on a constant currency basis;
- record customer satisfaction level of 79% maintained across our key markets;
- free cash flow increase of 12% on a constant currency basis; and
- an available net cash position (cash and cash equivalents less loans, overdrafts and finance leases, excluding restricted cash) of £371m.

As a result annual bonus payouts for Executive Directors reflect strong performance against financial targets and their individual personal objectives.

2011 DABS and PSP awards are due to vest in full in December 2014. For context, over the performance period of these awards, we have delivered strong EPS growth and our market capitalisation has risen from under £2bn to well over £4bn. This has resulted in excellent value creation for shareholders and we believe the reward for Executive Directors fairly reflects these achievements.

Looking ahead to the year ending 30 September 2015

As highlighted above, we will continue to operate under our approved Remuneration Policy until the merger completes.

In line with the Executive Directors' Remuneration Policy salaries were reviewed on 1 October 2014. No revisions were made. Benefits, pension provisions and opportunities under the annual bonus are unchanged.

At this stage, it is not currently planned to make any further TUI Travel PSP awards to Executive Directors, although this position may change if the merger is cancelled or substantially delayed.

On behalf of the Committee I thank you for your support and trust that you find the Remuneration Report informative.

Coline McConville

Remuneration Committee Chairman
3 December 2014

The Remuneration Report for the financial year ended 30 September 2014 has been prepared on behalf of the Board by the Remuneration Committee (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) Regulations 2008 (as amended). The Committee adopts the principles of good governance as set out in the UK Corporate Governance Code.

This report will be subject to one vote at the AGM on 10 February 2015 – an advisory vote in relation to the statement by the Remuneration Committee Chairman and the Annual Report on Remuneration.

Directors' Remuneration Policy

This section sets out the Policy which was approved by shareholders at the AGM on 6 February 2014. The Policy applies 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.
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 tax-advantaged 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.

DIRECTORS' REPORT

Remuneration Committee

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 and shareholder value creation. 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 were made in December 2013. The awards related 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 10th 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 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 was made in December 2013. The award related to performance in the year ended 30 September 2013. The maximum multiple was 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 10th 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 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 was made in December 2013. The award related to performance in the year ended 30 September 2013. The maximum multiple was a ratio of four matching shares to one deferred share. These and other previous DABS awards that are currently outstanding will 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.

DIRECTORS' REPORT

Remuneration Committee

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

Renewed and updated versions of the PSP and DABS rules were approved at the AGM on 6 February 2014 and applied from this date.

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 – a tax-advantaged 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.

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 Directors' Remuneration Report 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.

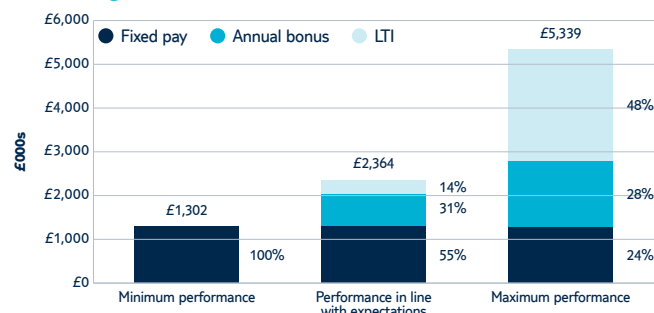
As part of this process, the Committee reviews, on at least an annual basis, the impact of different performance scenarios on the potential reward opportunity and pay-outs to be received by the Executive Directors. The charts show hypothetical values of the remuneration package for Executive Directors in post on 30 September 2014 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).
- Maximum performance (assuming 100% pay-out under both the annual bonus and the PSP).

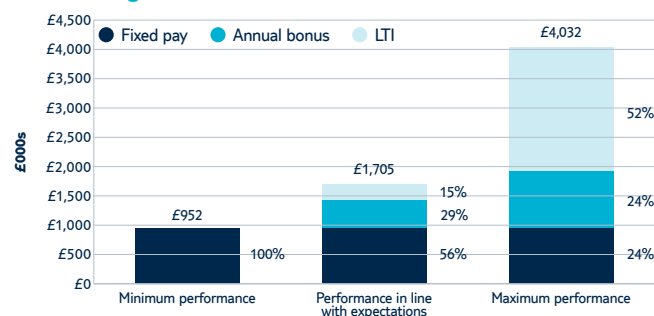
The charts are in line with our remuneration policy effective from 1 October 2014. They have been updated from those published previously to reflect revised benefit costs. Matching share awards under DABS are excluded as the last award was made in December 2013.

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

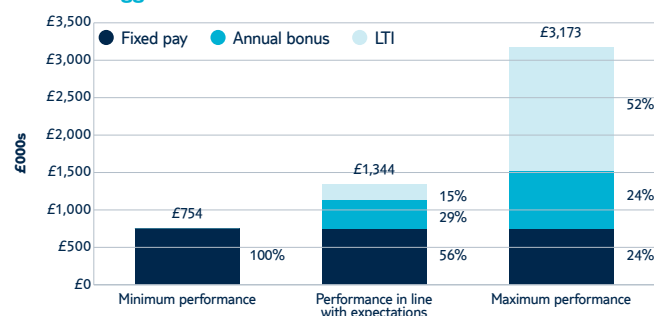
Peter Long



Johan Lundgren



William Waggott



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. Minimum performance. Fixed remuneration is comprised salary, standard benefits 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. Performance in line with expectations is comprised fixed remuneration, annual bonus at 50% of maximum performance levels and long-term incentives at threshold performance levels.
4. Maximum performance is comprised 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 or lower.
6. All-employee share plans have been excluded, as have any legacy awards which Executive Directors may hold.

DIRECTORS' REPORT

Remuneration Committee 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, 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, remuneration payments or payments for loss of office, contained in 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, Coline McConville and Val Gooding 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 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	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)	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.

DIRECTORS' REPORT

Remuneration Committee 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 PSP and DABS, as approved at the AGM on 6 February 2014 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.

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.

Additional Information

The following points are included for ease of reference.

A statement regarding the Directors' Remuneration Policy was published on the Company's website on 22 January 2014. The page numbers refer to the Annual Report and Accounts for the year ended 30 September 2013.

Service contracts

As set out on page 86, under the terms of their existing service contracts, the three UK-based Executive Directors may be eligible to receive an annual bonus equivalent to 50% of the maximum amount that could have been awarded had they worked their notice period. As has previously been communicated to shareholders, this is a legacy issue contained within current contracts and will not be incorporated in service contracts for new appointments. In a payment in lieu of notice situation, contractual termination arrangements for new appointments will be restricted to salary and contractual benefits during the relevant notice period.

Recruitment policy

On page 85, we stated that the Committee's intention is for the maximum level of variable pay to be limited to 575% of salary, representing the current maximum opportunity under the annual bonus and PSP. In addition, it was considered appropriate for the Committee to have discretion to make further one-off cash, or share-based awards, to Executive Directors on recruitment to enable the Committee to respond in exceptional and unexpected circumstances. The Committee considered that this was in the best interests of the Company and our shareholders, allowing it to retain flexibility to act appropriately in a commercial recruitment situation.

Following discussions with shareholder representatives, in order to provide additional comfort in how our recruitment policy will operate, the Committee has agreed that the total maximum level of variable remuneration which may be offered in a recruitment event will be limited in all cases to 725% of base salary (excluding buy-out awards).

We reiterate that, other than in truly exceptional and unexpected circumstances, we would continue to expect variable pay on recruitment not to exceed 575% of salary (excluding buy-outs).

The Annual Report on Remuneration for the year ended 30 September 2014

The following section sets out the Directors' remuneration for the financial year ended 30 September 2014. The following information has been audited by PricewaterhouseCoopers LLP:

- single total figure of remuneration;
- retirement benefits;
- scheme interests awarded between 1 October 2013 and 30 September 2014;
- payments to past Directors;
- loss of office payments; and
- Directors' shareholdings.

Single total figure of remuneration

Executive Directors

	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014	Y/E 30 Sep 2013
Executive Directors	Salary £000	Salary £000	Benefits (excluding retirement benefits) £000 ¹	Benefits (excluding retirement benefits) £000	Annual bonus (cash + deferred) £000 ²	Annual bonus (cash + deferred) £000	DABS (matching awards) £000 ^{4/5}	DABS (matching awards – restituted) £000 ³	PSP £000 ^{4/5}	PSP (restituted) £000 ³	Retirement benefits £000	Retirement benefits £000	Total remuneration £000	Total remuneration (restituted) £000
Peter Long	850	850	26	26	1,458	1,369	6,729	4,915	3,845	2,808	425	425	13,333	10,393
Johan Lundgren	700	700	61	71	980	902	3,284	2,399	3,167	999	231	231	8,423	5,302
William Waggott	550	550	21	19	770	739	3,103	1,863	1,493	971	182	182	6,119	4,324
Volker Böttcher ^{6/7}	71	458	4	22	102	392	534	1,840	223	766	18	114	952	3,592
Total	2,171	2,558	112	138	3,310	3,402	13,650	11,017	8,728	5,544	856	952	28,827	23,611

Notes

- Benefits for the year ended 30 September 2014 include (where used) holiday travel concessions.
- Annual bonus figures include cash and the proportion that is deferred for at least three years. The deferred element is not subject to performance conditions.
- In accordance with the relevant legislation the anticipated value of the DABS and PSP shares that vested on 10 December 2013 was estimated in the Annual Report for the year ended 30 September 2013 using a share price of 365.00p, this being the three-month average for the year ended 30 September 2013. The actual share price at the date of vesting was 378.30p.
- The anticipated value of the DABS and PSP shares that will vest for the three-year period ended 30 September 2014 has been calculated using a share price of 372.54p, this being the three-month average up to 30 September 2014.
- Awards vest after the approval of the financial statements for the year ended 30 September 2014 and such awards relate to a performance period ending on the same date as those financial statements. Therefore, the figures in the 2014 DABS and 2014 PSP columns relate to awards that will vest in December 2014.
- Dr Böttcher stood down from the Board as an Executive Director on 16 December 2013. Each element that comprises his single total figure of remuneration is pro-rated and covers the period 1 October to 16 December 2013. Dr Böttcher's salary was revised on 1 October 2013 to €400,000 (previously €545,000). In line with the Directors' Remuneration Policy published last year, and as required by German case law, his bonus payment for the year ended 30 September 2014 is equivalent to the average of his previous three-years' bonus awards i.e. €578,441. In accordance with the rules of the PSP and DABS, Dr Böttcher will be a good leaver with respect to his awards.
- Dr Böttcher is paid in EUR. Payments in the table above have been converted at 1.1896 to 1 GBP, being the average exchange rate for the period 1 October 2013 to 31 December 2013.

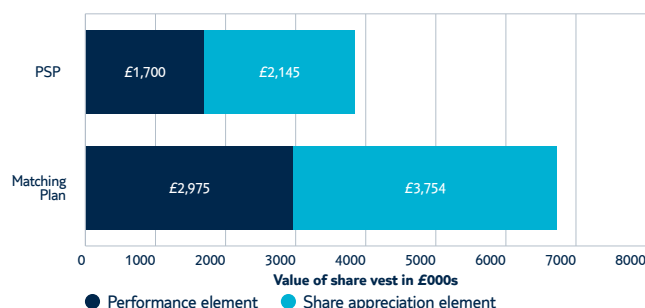
Alignment of pay with performance

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 Company has continued to perform strongly, led by the executive team. For example, we have delivered excellent EPS growth over this period, and this has driven strong share price performance. This has resulted in our market capitalisation increasing from under £2bn to well over £4bn over these three years. We consider that the remuneration received for the year ended 30 September 2014 recognises the management team's continued excellent performance. For example, for Peter Long:

- 90% of his total remuneration was delivered in variable pay; and
- Of this variable amount, over half was directly due to the significant increase in our share price over the last three years.

This demonstrates the strong alignment of our Directors' packages with the shareholder experience.



DIRECTORS' REPORT

Remuneration Committee
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, holiday travel concessions and school fees (£42,760).
- 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.

Retirement benefits

Total pension contributions or allowances accrued to the year ended 30 September 2014 were £856,000. Payments totalling £1,037,000 have been made as at the date of this report. These payments include contributions for the year ended 30 September 2013 which were accrued but not paid at the date of the 2013 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 2014 are a pension of £63,879 per annum, payable from age 62. The transfer value as at 30 September 2014 calculated on the current basis is £1,594,633. The transfer value as at 30 September 2013 calculated on the basis in force at that time was £1,402,198. 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 £60,837 per annum so there has been an increase in pension of £3,042 over the year. No contributions were made in the year ended 30 September 2014.

Entitlement under the Executive Directors' pension arrangements is not enhanced in an early retirement situation.

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 2014 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 cash flow performance. The targets are designed to be stretching, drive improved results and align delivery with shareholders' expectations.

The individual business objectives were determined with consideration to the strategic goals set for each Executive Director by the Board. Performance against these objectives was reviewed by the Committee against quantifiable individual performance metrics. Further information regarding these targets can be found under each graph.

As reported earlier the Company has had a successful year and this is reflected in the level of bonus awards.

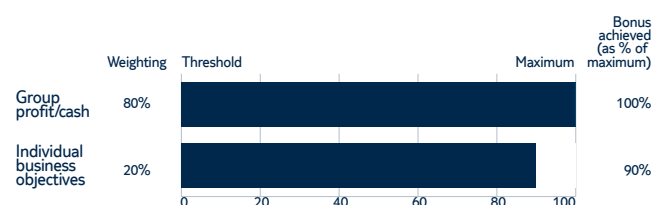
We have delivered underlying profit of £654m and free cash flow of £477m (both at constant currency rates). These represent growth of 11% and 12%, respectively from last year delivering maximum financial performance. We remain confident of delivering on our five-year annualised target of 7-10% underlying operating profit growth at constant currency rates.

The specific financial targets under the annual bonus are considered by the Committee to be commercially sensitive, although the Committee keeps this position under review and aims to provide shareholders with as much context as possible as to how the performance outcomes are aligned with the remuneration received by Directors.

Executive Directors	Overall bonuses for year ended 30 September 2014			
	Maximum bonus as % of salary	Total bonus as % of maximum	Total bonus as % of salary	Total bonus £000
Peter Long	175%	98%	172%	1,458
Johan Lundgren	140%	100%	140%	980
William Waggott	140%	100%	140%	770

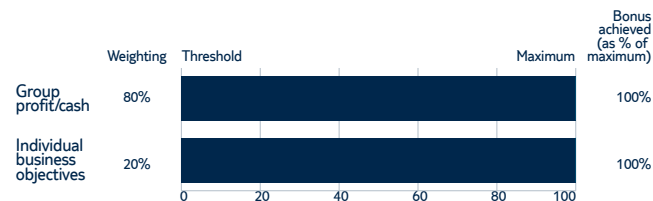
The graphs below provide more information about the awards:

Peter Long



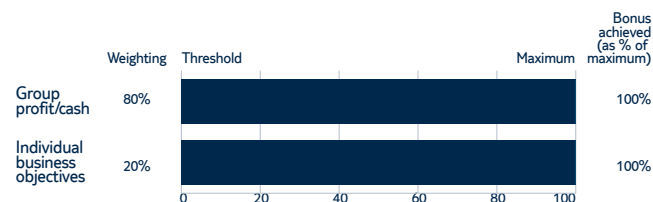
Individual business objectives included review of strategic options to maximise growth and value of the Online Accommodation businesses, continued focus on businesses in turnaround (e.g. France) and brand strategy review.

Johan Lundgren



Individual business objectives included continued delivery of One Mainstream, digital transformation and achieving 3% underlying operating margin.

William Waggott



Individual business objectives included decrease in average net debt, restriction of overall Group SDIs to less than £20m, SAP programme management and review of strategic options to maximise growth and value of the Online Accommodation businesses.

Under the DABS, up to 50% of each Executive Director's annual performance bonus will be deferred. Due to the practical implications of the merger, it is currently expected that DABS awards to be made in December 2014 will be made as cash-settled awards over notional shares on materially the same terms as the scheme rules. In line with the policy communicated to shareholders last year, no matching DABS awards will be made in respect of the year ended 30 September 2014.

Long-term incentives

The vesting of the matching shares element of DABS and PSP awards is subject to achievement of the following performance conditions over the three-year performance period and continued employment.

The Committee assesses the Earnings Per Share (EPS) and the Return on Invested Capital (ROIC) tests based on audited information. Independent calculations of Total Shareholder Return (TSR) performance for outstanding awards are performed by Deloitte.

Following our strong performance over the last three years the performance conditions attached to the Deferred Annual Bonus Scheme (DABS) and Performance Share Plan (PSP) awards made on 7 December 2011 were achieved in full and these awards will vest on 8 December 2014.

Performance measures

Measure	Target	Result	Weighting
A performance hurdle of ROIC requiring ROIC to be on average at least equal to WACC.			
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	EPS growth in excess of RPI for the three-year performance period was 88.10%. This performance measure was therefore achieved at 100%.	50%
The Company's TSR performance relative to an index of 23 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.	Average relative TSR per annum: • below index results in nil achievement • between index and index +8% per annum results in achievement between 15% and 100% on a straight-line basis • at or above index +8% per annum results in 100% achievement	The Company's achieved relative TSR performance was 174.68% over the three-year performance period, with the peer group average achieving 91.99%. This represents out-performance above the required hurdle of 117.96% by 48.08%. This performance measure was therefore achieved at 100%.	25%
ROIC performance in relation to ROIC targets.	Average ROIC performance in excess of ROIC targets: • less than 14.1% results in nil achievement • between a threshold of 14.1% to 15.6% results in achievement between 15% and 100% on a straight-line basis • greater than 15.6% results in 100% achievement	ROIC performance in excess of ROIC targets for the three-year performance period was 19.37%. This performance measure was therefore achieved at 100%.	25%

The companies included in the TSR index are:

1 Aer Lingus Group	13 International Consolidated Airlines Group
2 Air Berlin	14 Kuoni Group
3 Air France-KLM	15 National Express Group
4 Carnival	16 Norwegian Air Shuttle
5 Club Mediterranee	17 Pierre & Vacances
6 Deutsche Lufthansa	18 Priceline.com
7 easyJet	19 Royal Caribbean Cruises
8 Expedia	20 Ryanair Holdings
9 Finnair	21 Stagecoach Group
10 First Group	22 Thomas Cook Group
11 Flight Centre	23 Wotif.com Holdings
12 Hertz Global Holdings	

DIRECTORS' REPORT

Remuneration Committee
continued

Single total figure of remuneration

Non-Executive Directors

	Y/E 30 Sep 2014	Y/E 30 Sep 2013	Y/E 30 Sep 2014 Total remuneration	Y/E 30 Sep 2013 Total remuneration
	Fees £000	Fees £000	£000	£000
Non-Executive Directors				
Friedrich Joussen (Chairman)	300	163	300	163
Sir Michael Hodgkinson (Deputy Chairman)	200	200	200	200
Horst Baier	55	55	55	55
Tony Campbell ¹	11	55	11	55
Sebastian Ebel	55	29	55	29
Val Gooding	36	–	36	–
Rainer Feuerhake	–	20	–	20
Dr Michael Frenzel (Outgoing Chairman)	–	145	–	145
Janis Kong	55	55	55	55
Coline McConville	70	65	70	65
Minnow Powell	75	70	75	70
Dr Erhard Schipporeit	55	55	55	55
Dr Albert Schunk	55	55	55	55
Harold Sher ²	53	55	53	55
Vladimir Yakushev ³	8	–	8	–
Total	1,028	1,022	1,028	1,022

Notes

1. Tony Campbell retired from the Board with effect from 16 December 2013.
2. Harold Sher retired from the Board with effect from 18 September 2014.
3. Vladimir Yakushev was appointed to the Board on 7 February 2014. He resigned on 24 March 2014.

Non-Executive Directors are appointed with three months' notice by either party. Minnow Powell, Coline McConville, Janis Kong and Val Gooding were appointed for a three-year term which expires 4 April 2017, 21 September 2017, 29 May 2015 and 7 February 2017 respectively but includes the three months' notice on either side provision. At the end of each term their re-appointment is considered by the Nomination Committee. In respect of Coline McConville and Minnow Powell, their re-appointments were considered, and unanimously recommended, to the Board at a meeting of the Nomination Committee held on 26 March 2014.

A review of Non-Executive Director fees was carried out during the year, taking into account the scope of the roles at TUI Travel and the time commitment expected. The review highlighted that the fees for the Chairmen of the Audit and Remuneration Committees were lower than their market comparators. The decision was taken to increase the fees for those Chairmen by £10,000 each with effect from 1 April 2014.

The table below sets out the Non-Executive Director fees framework as at 30 September 2014:

	Annual fee
Friedrich Joussen – Chairman	£300,000
Sir Michael Hodgkinson – SID and Nomination Committee Chairman	£200,000
Minnow Powell – Audit Committee Chairman	£80,000
Coline McConville – Remuneration Committee Chairman	£75,000
Horst Baier	£55,000
Sebastian Ebel	£55,000
Val Gooding	£55,000
Janis Kong	£55,000
Dr Erhard Schipporeit	£55,000
Dr Albert Schunk	£55,000

Scheme interests awarded between 1 October 2013 and
30 September 2014

Awards under the DABS and PSP were made on 12 December 2013, 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 2016.

DABS deferred and matching awards

Deferred awards made on 12 December 2013 are summarised below:

Executive Directors	Number of nil-cost share options awarded	Face value of award £000
Peter Long	181,546	684
Johan Lundgren	119,607	451
William Waggott	98,063	370

Matching awards made on 12 December 2013 are summarised below:

Executive Directors	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	726,184	2,737	342	12.5%
Johan Lundgren	478,428	1,803	225	12.5%
William Waggott	392,252	1,478	185	12.5%

Notes

1. DABS awards were allocated on 12 December 2013 using the mid-market share price (376.9p) of TUI Travel PLC shares on the date immediately preceding the allocation date.
2. As disclosed last year, the last grant of matching awards was made in December 2013.
3. No DABS award was made to Volker Böttcher.

PSP

Under the PSP, shares were awarded on 12 December 2013 which are also subject to continued employment and the achievement of stretching performance conditions over a three-year period to 30 September 2016. The awards are summarised below:

Executive Directors	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	338,286	1,275	150%	159	12.5%
Johan Lundgren	185,725	700	100%	88	12.5%
William Waggott	145,927	550	100%	69	12.5%

Notes

1. PSP awards were allocated on 12 December 2013 using the mid-market share price (376.9p) of TUI Travel PLC shares on the date immediately preceding the allocation date.
2. No PSP award was made to Volker Böttcher.

Share Incentive Plan

Peter Long, Johan Lundgren and William Waggott are participants in the Company's tax-advantaged Share Incentive Plan. During the year ended 30 September 2014:

- Peter Long and William Waggott did not purchase any partnership shares and were not awarded any matching shares in the year.
- Johan Lundgren purchased 443 partnership shares (at a share price of 406.00p) and was awarded 111 matching shares (at a share price of 406.00p).
- Under the Dividend Reinvestment Plan (open to all shareholders under the same terms) on 4 October 2013 and 10 April 2014, William Waggott was allocated 44 and 99 additional shares respectively.

Payments to past directors

Aside from the arrangements for Volker Böttcher outlined below, there have been no payments made to Directors for loss of office.

Arrangements for Volker Böttcher

Volker Böttcher stood down from the TUI Travel PLC Board as an Executive Director on 16 December 2013. He remains employed within the TUI Travel PLC group of companies until 31 December 2014. During his notice period, Dr Böttcher continues to be paid in line with the terms of his service agreement, entitled to receive his normal benefits and to participate in his existing pension arrangements.

Dr Böttcher's salary was revised on 1 October 2013 to €400,000 (previously €545,000). A bonus will be paid in respect of the financial year ended 30 September 2014. As required under German law, and in line with the approved Directors' Remuneration Policy published last year, this payment will be equivalent to the average of his previous three-years' bonus awards.

As at 30 September 2014 Dr Böttcher had the following awards outstanding under the PSP and DABS.

PSP shares/ nil-cost options	Award date	Market price per share at award	Planned vesting date
283,843	07.12.11	164.70p	08.12.14

DABS shares/ nil-cost options	Award date	Market price per share at award	Planned vesting date
170,306	07.12.11	164.70p	08.12.14
681,224	07.12.11	164.70p	08.12.14
87,886	06.12.12	284.00p	06.12.15
351,544	06.12.12	284.00p	06.12.15

In line with the rules of the PSP and DABS, Dr Böttcher will be a good leaver with respect to his awards. Deferred share awards under the DABS, which represent the deferral of bonuses previously earned, will vest in full at the normal vesting date. Matching share awards under the DABS and share awards under the PSP will vest on the normal vesting date, subject to the achievement of the applicable performance criteria. Matching share awards that are not vested by 31 December 2014 will be pro-rated for service accrued within the three-year performance period from the date of award to 31 December 2014. Consequently 107,416 Matching share awards will lapse. The last PSP award to Dr Böttcher was made in December 2011. Therefore there will be no unexpired PSP awards on 31 December 2014.

No further payments for loss of office have been made.

Statement of Executive Directors' shareholding and share interests

The Executive Directors are subject to a shareholding obligation that increased on 1 October 2014. 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 in post on 30 September 2014 comply with the revised holding requirement. Volker Böttcher is not expected to comply with the shareholding obligation during his notice period.

Executive Directors	Shares held outright at 30 September 2014	Shares held outright at 30 September 2014 as a percentage of salary based on share price of 389.10p as at 30 September 2014 and salary as at 30 September 2014	Outstanding scheme interests at 30 September 2014			
			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 2014
Peter Long	3,025,860	1385%	5,528,136	889,770	6,417,906	9,443,766
Johan Lundgren	534,021	297%	3,374,793	510,816	3,885,609	4,419,630
William Waggott	556,763	394%	2,541,157	440,527	2,981,684	3,538,447
Volker Böttcher	N/A	N/A	1,316,611	258,192	1,574,803	1,574,803

Notes

- Interests in shares held at 30 September 2014 include shares held by connected persons.
- All outstanding scheme interests take the form of rights to receive shares (nil-cost share options or conditional share awards).
- Details of each scheme interest awarded under the DABS and PSP held by each Executive Director are set out later in this report.
- Volker Böttcher: 107,416 unvested DABS Matching share awards will lapse on 31 December 2014.

DIRECTORS' REPORT

Remuneration Committee

continued

Deferred Annual Bonus Scheme (DABS)

Awards made under the DABS, and which remain outstanding at 30 September 2014, are outlined below:

Executive Directors	DABS shares/ nil-cost options held at 1 October 2013	DABS nil-cost options awarded during the year ended 30 September 2014	Award date	Market price per share at award	DABS shares vested and released during the year ended 30 September 2014	Market price per share at vesting	Market value at vesting (£)	Planned/ Actual vesting and release date	Maximum DABS shares/nil- cost options held at 30 September 2014	Maximum value based on share price of 389.10p at 30 September 2014 (£)
Peter Long	324,781 ¹		06.12.10	229.00p	324,781	378.3	1,228,647	10.12.13	–	–
	1,299,124 ²		06.12.10	229.00p	1,299,124	378.3	4,914,586	10.12.13	–	–
	451,578 ¹		07.12.11	164.70p				08.12.14	451,578	1,757,090
	1,806,312 ²		07.12.11	164.70p				08.12.14	1,806,312	7,028,360
	256,646 ¹		06.12.12	284.00p				06.12.15	256,646	998,610
	1,026,584 ²		06.12.12	284.00p				06.12.15	1,026,584	3,994,438
		181,546 ¹	12.12.13	376.90p				12.12.16	181,546	706,395
		726,184 ²	12.12.13	376.90p				12.12.16	726,184	2,825,582
Total	5,165,025	907,730			1,623,905		6,143,233		4,448,850	17,310,475
Johan Lundgren	158,515 ¹		06.12.10	229.00p	158,515	378.3	599,662	10.12.13	–	–
	634,060 ²		06.12.10	229.00p	634,060	378.3	2,398,649	10.12.13	–	–
	220,400 ¹		07.12.11	164.70p				08.12.14	220,400	857,576
	881,600 ²		07.12.11	164.70p				08.12.14	881,600	3,430,306
	170,809 ¹		06.12.12	284.00p				06.12.15	170,809	664,618
	683,236 ²		06.12.12	284.00p				06.12.15	683,236	2,658,471
		119,607 ¹	12.12.13	376.90p				12.12.16	119,607	465,391
		478,428 ²	12.12.13	376.90p				12.12.16	478,428	1,861,563
Total	2,748,620	598,035			792,575		2,998,311		2,554,080	9,937,925
William Waggott	123,144 ¹		06.12.10	229.00p	123,144	378.3	465,854	10.12.13	–	–
	492,576 ²		06.12.10	229.00p	492,576	378.3	1,863,415	10.12.13	–	–
	208,257 ¹		07.12.11	164.70p				08.12.14	208,257	810,328
	833,028 ²		07.12.11	164.70p				08.12.14	833,028	3,241,312
	134,207 ¹		06.12.12	284.00p				06.12.15	134,207	522,199
	536,828 ²		06.12.12	284.00p				06.12.15	536,828	2,088,798
		98,063 ¹	12.12.13	376.90p				12.12.16	98,063	381,563
		392,252 ²	12.12.13	376.90p				12.12.16	392,252	1,526,253
Total	2,328,040	490,315			615,720		2,329,269		2,202,635	8,570,453
Grand Total	10,241,685	1,996,080			3,032,200		11,470,813		9,205,565	35,818,853

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 that vested in December 2013 are outlined on page 91 of the Annual Report and Accounts for the year ended 30 September 2013.
 - The performance measures and targets applicable for matching awards granted in 2011, 2012 and 2013 are outlined in this report.
3. The maximum value shown is based on the 30 September 2014 share price of 389.10p. The anticipated value of the DABS shares that will vest for the three-year period ended 30 September 2014 has been calculated using the three-month average for the year ended 30 September 2014, i.e. 372.54p.

Performance Share Plan (PSP)

Awards made under the Performance Share Plan, and which remain outstanding at 30 September 2014, are outlined below:

Executive Directors	PSP shares/nil-cost options held at 1 October 2013	PSP nil-cost options awarded during the year ended 30 September 2014	Award date	Market price per share at award	PSP shares vested and released during the year ended 30 September 2014	Market price per share at vesting	Market value at vesting (£)	Planned/Actual vesting and release date	Maximum PSP shares/nil-cost options held at 30 September 2014	Maximum value based on share price of 389.10p at 30 September 2014 (£)
Peter Long	742,358		06.12.10	229.00p	742,358	378.3	2,808,340	10.12.13	–	–
	1,032,179		07.12.11	164.70p				08.12.14	1,032,179	4,016,208
	598,591		06.12.12	284.00p				06.12.15	598,591	2,329,118
		338,286	12.12.13	376.90p				12.12.16	338,286	1,316,271
Total	2,373,128	338,286			742,358		2,808,340		1,969,056	7,661,597
Johan Lundgren	264,192		06.12.10	229.00p	264,192	378.3	999,438	10.12.13	–	–
	850,030		07.12.11	164.70p				08.12.14	850,030	3,307,467
	295,774		06.12.12	284.00p				06.12.15	295,774	1,150,857
		185,725	12.12.13	376.90p				12.12.16	185,725	722,656
Total	1,409,996	185,725			264,192		999,438		1,331,529	5,180,980
William Waggott	256,769		06.12.10	229.00p	256,769	378.3	971,357	10.12.13	–	–
	400,728		07.12.11	164.70p				08.12.14	400,728	1,559,233
	232,394		06.12.12	284.00p				06.12.15	232,394	904,245
		145,927	12.12.13	376.90p				12.12.16	145,927	567,802
Total	889,891	145,927			256,769		971,357		779,049	3,031,280
Grand Total	4,673,015	669,938			1,263,319		4,779,135		4,079,634	15,873,857

Notes

- 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 matching awards that vested in December 2013 are outlined on page 91 of the Annual Report and Accounts for the year ended 30 September 2013.
 - The performance measures and targets applicable for PSP awards granted in 2011, 2012 and 2013 are outlined in this report.
- The maximum value is based on the 30 September 2014 share price of 389.10p. The anticipated value of the PSP shares that will vest for the three-year period ended 30 September 2014 has been calculated using the three-month average for the year ended 30 September 2014, i.e. 372.54p.

Implications of the merger on outstanding awards

Subsequent to the merger completing, outstanding PSP and DABS awards will roll-over and vest in line with the original schedule. It is possible that any performance conditions attached to the awards may be modified to ensure that they remain relevant to the combined Group.

DIRECTORS' REPORT

Remuneration Committee

continued

Statement of Non-Executive Directors' shareholdings

As at 30 September 2014, the Non-Executive Directors' interests in ordinary shares of the Company were:

Non-Executive Directors	Interests in shares held at 30 September 2014
Friedrich Joussen (Chairman)	—
Sir Michael Hodgkinson (Deputy Chairman)	20,000
Horst Baier	—
Sebastian Ebel	—
Val Gooding	2,493
Janis Kong	15,000
Coline McConville	—
Minnow Powell	6,891
Dr Erhard Schipporeit	—
Dr Albert Schunk	—

Under the Dividend Reinvestment Plan (open to all shareholders under the same terms), on 4 October 2013 Tony Campbell was allocated 525 additional shares.

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 5 February 2015.

During the year, the price of the Company's ordinary shares ranged between 355.50 pence and 450.00 pence and the mid-closing price on Tuesday 30 September 2014 was 389.10 pence.

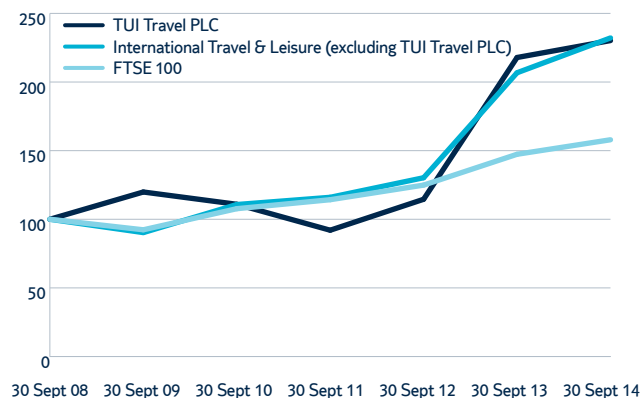
For the year ended 30 September 2014, Peter Long received and retained Non-Executive Directors' fees in respect of an appointment with Rentokil Initial PLC of £60,000 (2013: £60,000). No other Executive Director currently holds an external non-executive director post.

Under the Dividend Reinvestment Plan (open to all shareholders under the same terms), on 3 October 2014 William Waggott was allocated 45 additional shares.

There have been no further changes in the interests of the Directors between 30 September 2014 and the date of approval of the 2014 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 is included.



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
2013/14	13,333	98%	100%
2012/13	10,393	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.
- In accordance with the relevant legislation the anticipated value of the DABS and PSP shares that vested on 10 December 2013 was estimated for the purposes of the Annual Report for the year ended 30 September 2013 using a share price of 365.00p, this being the three-month average for the year ended 30 September 2013. The actual share price was 378.30p. The FY2012/13 data above is the actual value rather than the estimate included in last year's Annual Report and Accounts.

Percentage change in remuneration of CEO

The following table shows the percentage change in remuneration between the years ended 30 September 2013 and 30 September 2014 for the CEO and employees within our chosen comparator group. Last year the comparator group was the UK Group Leadership team as this was considered to be the most meaningful comparator group given that their remuneration is managed on a central, rather than local, basis. However, following shareholder feedback the comparator group has been broadened.

The table below shows the percentage change in remuneration of the CEO compared to all permanent employees based in the UK.

	Salary	Benefits	Annual bonus
Comparator group percentage change including travel concessions	4.1%	2.3%	16.2%
Comparator group percentage change excluding travel concessions	4.1%	2.3%	16.2%
CEO percentage change including travel concessions	0.0%	0.0%	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 and share buyback £m
Year ended 30 September 2014	1,833	153
Year ended 30 September 2013	1,827	132
Percentage change	0.3%	15.9%

Implementation of the Executive Directors' Remuneration Policy for the year commencing 1 October 2014.

Salary

	Annual salary
Peter Long	£850,000
Johan Lundgren	£700,000
William Waggott	£550,000

Salaries were reviewed as part of the annual process in October 2014. No changes were made.

Benefits (excluding pension)

The benefits that are effective from 1 October 2014 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.
- William Waggott. Car/car allowance, private healthcare cover and holiday travel concessions.

Retirement benefits

Retirement benefits will continue to be applied as per the Policy and application in previous years.

	Retirement benefits allowance as % of salary
Peter Long	50%
Johan Lundgren	33%
William Waggott	33%

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 2014 are:

	Group Profit/Cash	Individual Business Objectives
Peter Long	80%	20%
Johan Lundgren	80%	20%
William Waggott	80%	20%

It is anticipated that the bonus targets will be reviewed when the merger completes to ensure that they remain appropriate in the combined Group, and may be modified if appropriate to ensure that they remain relevant in the new business.

Share Plans

In light of the merger it is not planned to make any PSP awards in December 2014. It is understood that TUI AG will include the Executive Directors in their LTIP arrangements after the merger has completed.

The Share Incentive Plan is on hold.

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 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 6 February 2014 and can be found on the Company's website.

The Committee currently comprises four Non-Executive Directors each of whom the Company deems to be independent.

- Coline McConville – Chairman
- Sir Michael Hodgkinson
- Val Gooding
- Janis Kong

The Chairman, Sir Michael Hodgkinson and Janis Kong were in place throughout the year. Val Gooding was appointed to the Committee on 1 July 2014.

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 members of the Committee have no conflicts of interest arising from cross-directorships and have no day-to-day involvement in the running of the Company.

The Committee met eight 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:

- Consultation with shareholders and external bodies regarding the Executive Directors' and GMB remuneration 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 2010 Performance Share Plan and Deferred Annual Bonus Scheme awards.
- Approval of PSP and DABS awards for performance in the year ended 30 September 2013.
- Approval of the Directors' Remuneration Report for the year ended 30 September 2013.
- Consideration of market trends in executive remuneration and potential impact.
- Review of how the Committee oversees the remuneration for the 50 most senior leaders below the GMB.

DIRECTORS' REPORT

Remuneration Committee continued

- Review of GMB salaries.
- Review and discussion about corporate governance developments and their potential impact.
- Assessment of the executive shareholding guidelines.
- Evaluation of the effectiveness of support provided by Deloitte in their role as independent advisers to the Committee.
- Consideration of the impact on executive remuneration of the merger with TUI AG.
- Agreement of the Annual Bonus, PSP and DABS performance targets for the year ended 30 September 2014.

During the year the Committee considered the results of a Remuneration Committee Effectiveness Survey. No significant concerns were raised.

Advisers

While it is the Committee's responsibility to exercise independent judgement, the Committee does request advice from management and external 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);
- Joyce Walter – Company Secretary;
- 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 by invitation 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 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 £179,500 in fees for these services. The fees were higher than usual because of the additional work arising from the proposed merger with TUI AG. 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 2014, 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 6 February 2014 the results of the votes regarding Resolutions 2 (to approve the Directors' Remuneration Report) and 3 (to approve the Directors' Remuneration Policy) were:

Resolution Number	Votes For		Votes Against		Votes Total	Votes Withheld
	Number	%	Number	%		
2	971,095,978	99.40	5,873,376	0.60	976,969,354	2,172,449
3	943,269,304	97.60	23,158,662	2.40	966,427,966	12,713,837

The Remuneration Report was approved by a duly authorised Committee of the Board of Directors on 3 December 2014 and signed on its behalf by:

Coline McConville

Chairman of the Remuneration Committee
3 December 2014

Other statutory disclosures

Pages 64 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 64
Corporate Governance Report	Page 67
Directors' biographies	Page 64
Directors' responsibility statements	Page 102
Financial risk management	Page 42
Future developments	Page 61
Gender diversity	Page 36
Greenhouse gas emissions	Page 29
Human rights	Page 27
Nomination Committee Report	Page 77
Our people	Page 32
Pension schemes	Financial statements – Note 6(C)
Post balance sheet events	Financial statements – Note 35
Results and dividends	Page 6 and Pages 52 to 61
Remuneration Report	Page 79
Share capital	Financial statements – Note 24
Social responsibility	Page 24
Sustainable development	Page 24

Political donations

The Group made no political contributions during the year (2013: £nil).

Directors and their interests

Details of Directors and their biographies can be found in a separate section called 'Board of Directors' on page 64 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 2014, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares (2013: no shares) have been bought back under this authority during the year ended 30 September 2014. This standard authority is renewable annually and the Directors will seek to renew this authority at the AGM to be held on 5 February 2015. The Directors were granted authority in 2014 to allot relevant securities up to a maximum nominal amount of £74,534,044.60. That authority will apply until the conclusion of the 2015 AGM.

At the AGM in February 2015, shareholders will be asked to grant an authority to allot shares in the capital of the Company up to a maximum nominal amount of £81,170,172.40 representing the ABI guideline limit of approximately 66% of the Company's issued ordinary share capital. Of this amount, 405,850,862 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 2016 or, if earlier, on 5 May 2016. 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 121,755,258 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 2016 or, if earlier, on 5 May 2016.

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 includes the following requirements:

- that transactions and relationships between the Company and TUI AG (and/or its associates) must be conducted at arm's length and on normal commercial terms;
- that TUI AG (and/or its associates) must abstain from taking action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules;
- that no controlling shareholder (or its associates) may propose or procure the proposal of a shareholder resolution which is intended, or appears to be intended, to circumvent the proper application of the Listing Rules; and
- that, so long as TUI AG controls 40% or more of the Company, the CEO's appointment is subject to consent from TUI AG unless TUI AG relinquishes its right to appoint a Chairman, in which case TUI AG has the right in its sole discretion to appoint any person to be the CEO.

The Company has complied with these independence provisions set out above during the year and, so far as the Company is aware, TUI AG and its associates have complied with these independence provisions during the year.

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.

DIRECTORS' REPORT

Other statutory disclosures continued

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). As detailed below, £400m of 4.9% Convertible Bonds were issued in April 2010. Half of these 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 bonds held by all bondholders were converted), TUI AG would have had a holding of 50.03% as at 30 September 2014. As a percentage of shares in issue, TUI AG's holding as at 30 September 2014 was 53.72% (2013: 54.48%).

As a 'controlling shareholder' of the Company for the purposes of the Listing Rules, TUI AG will be entitled to vote on the ordinary resolutions at the AGM for the re-election of the Company's Independent Directors. However, each such resolution at the AGM will also require approval by a majority of the votes cast by the Company's independent shareholders (i.e. the Company's shareholders excluding TUI AG and any other controlling shareholder).

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.

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 £1,225m bank revolving credit facilities which mature in June 2018;
- £175m of bonding and letter of credit facilities which mature in June 2018; and
- £150m 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.

£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.

£116 million of bonding facility agreements

Agreements between a number of surety companies and the Company relating to bonding facilities of £116 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

In relation to the £400m fixed rate 4.9% convertible bond, an 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. By way of security, TUI AG transferred to Antium Finance Ltd 86,967,049 shares, currently representing 7.14% of the Company's share capital on an undiluted basis. Those shares are restricted from being transferred and TUI AG remains entitled to the dividend yields, to exercise the voting rights attached to them and to repurchase 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 and to repurchase the 86,967,049 shares in the Company is extended to July 2016 at the latest. TUI AG remains entitled to receive the interest coupon on the bonds as well as the share dividends referred to above.

Of the £350m 6% Convertible Bonds, which were issued in September 2009, £348m (99.34%) had been converted as at 30 September 2014 and £2m (0.66%) were redeemed after the year end.

Significant shareholders

As at 30 November 2014, 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	50.03
Standard Life Investments	64,775,468	5.32
Artemis Investment Management	47,329,028	3.89

Post balance sheet events

On 15 September 2014, the Independent Directors of the Company and the Executive Board (Vorstand) of TUI AG announced that they had reached agreement on the terms of a recommended all-share nil-premium merger of the Company and TUI AG (the 'merger'), to be implemented by way of a scheme of arrangement of the Company under Part 26 of the Companies Act 2006 (the 'Scheme'). The scheme document in connection with the Scheme, containing the notice of the Court Meeting and Notice of General Meeting, was published on 2 October 2014 (the 'Scheme Document').

At the Court Meeting of the Scheme Shareholders and the General Meeting of the TUI Travel Shareholders, both held on 28 October 2014, the resolutions contained in the notice of the Court Meeting and Notice of General Meeting were duly passed by the requisite majorities. As such, the merger is expected to complete between mid-December 2014 and 31 March 2015.

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 5 February 2015 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 3 December 2014 and signed on its behalf by Joyce Walter, the Company Secretary.

By Order of the Board

Joyce Walter

Company Secretary
 3 December 2014

Company Number: 6072876

DIRECTORS' REPORT

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 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 & 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 64 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 Directors 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 3 December 2014 and signed on its behalf by William Waggott, Chief Financial Officer.

William Waggott
Chief Financial Officer

3 December 2014

Financial statements

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Independent Auditors' report to the members of TUI Travel PLC

Report on the Group financial statements

Our opinion

In our opinion, TUI Travel PLC's Group financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's affairs as at 30 September 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

TUI Travel PLC's financial statements comprise:

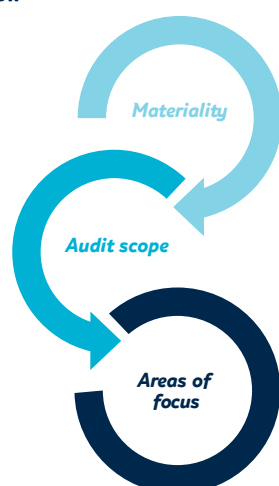
- the consolidated income statement and the consolidated statement of comprehensive income for the year then ended 30 September 2014;
- the consolidated balance sheet as at 30 September 2014;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in 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.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview



- Overall Group materiality: £27.5 million which represents 4.5% of underlying operating profit.
- We conducted audit work at 50 businesses in 15 countries.
- The Group engagement team visited the following locations – UK, Germany, France, Nordics, Belgium, Netherlands, Russia, Canada and Spain.
- Our audit scope addressed 87% of Group revenues and 83% of absolute Group underlying operating profit (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units).
- Effectiveness of internal control.
- Impairment assessment – Goodwill and other intangible assets, and Russia.
- Provisions and other areas of balance sheet judgement.
- Separately disclosed items.
- Deferred taxation.
- Risk of fraud in revenue recognition.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'Areas of focus' in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Our observations on the areas below were based on the evidence obtained to support our opinion on the financial statements as a whole.

Area of focus

Effectiveness of internal control

Refer to page 75 ('The effectiveness of Internal Control and the risk management framework' within the Audit Committee Report).

The overall control environment in the Group has improved over the last few years, with a change in approach from the Group management team and a greater focus on ensuring that controls in place are more robust and financial reporting more accurate.

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. Management is continuing to implement the COSO framework across the Finance functions within the Group, with the aim of ensuring controls within the larger businesses are fully documented, owned by individuals within those businesses and evidence of the operation of the control is retained. The smaller businesses within the Group are required to operate a centrally defined list of minimum controls, providing additional assurance over the control environment.

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, but are not exclusively, the smaller businesses operated by the Group.

Impairment assessment – Goodwill and other intangible assets and Russia

Refer to page 74 ('Annual goodwill impairment review' and 'SDI' within the Audit Committee Report), page 121 (Significant Accounting Policies) and page 144 (notes).

Goodwill and other intangible assets

The Goodwill and intangible asset balances of £4.3bn are supported by an annual impairment review.

No impairment charge has been recorded by management against these balances in the current financial year. The risk that we focused on in the audit is that the goodwill and intangibles balance may be overstated and that an impairment charge may be required.

Of the £4.3bn, £3.2bn relates to businesses that have grown significantly since acquisition and for which there is substantial headroom. The risk that we focused on in the audit is that the remaining balance of £1.1bn may be overstated.

Certain assumptions made by management in the impairment review are key judgements. In particular:

- The goodwill and intangibles balances in the Specialist & Activity businesses amount to £715m. Certain of these businesses have been trading below budget and will require turnaround actions to achieve the anticipated growth rate in the next five years in the business plans. If these growth rates are not achieved the goodwill and intangible asset values could be impaired;
- The French mainstream business, with £162m of goodwill and intangibles, has been loss making and is highly dependent on the North African destinations, where there is continuing political unrest, and the success of the cost reduction plan. The judgement over the extent of revenue to be generated from North Africa is a key area of focus;
- There has been investment in the Online Accommodation businesses for the last three years, with £253m of goodwill and intangibles. Management is forecasting high revenue and profit growth rates in the next five years resulting from the investment in Brazil and in Asia. If these growth rates are not achieved, it could lead to impairment of the related goodwill and intangible assets; and
- The assessment of the overall long term growth rates and discount rates used by management, because small changes in either of these can result in a significant change in the value in use.

Russia

In addition, the Group has a joint venture in Russia and Ukraine. Following the civil war in Ukraine and the impact of the devaluation of the rouble, the businesses in Russia and Ukraine made losses in the year and there is uncertainty over the future trading environment and cash flows from these businesses. Management has now assessed that the long-term non-trading balances with the Russian joint venture have been impaired and also provided for the committed funding which was paid to the joint venture in October and November 2014. In total, impairment charges of £28m have been made during the year.

How our audit addressed the area of focus

We assessed the overall control environment of the Group including meeting with senior management and the Group's legal, compliance and internal audit functions.

We evaluated the progress of the Group's project that is designed to strengthen the tone at the top (including assessing the quality of internal audit and strengthening of risk management process and procedures) and to formalise certain controls, policies and processes to improve the robustness of the control environment throughout the businesses operated by the Group.

The Group is complex and we noted that although this project is becoming embedded within the larger businesses where the output is more formalised, within the smaller businesses the controls are less formal.

As a result, our audit approach incorporated:

- a greater focus on those reporting units and functions with weaker controls;
- a greater emphasis on substantive testing of transactions, balances and key reconciliations; and
- a greater emphasis on testing of manual journals.

After discussion with the Audit Committee we also included a greater number of smaller businesses in scope for an audit of their complete financial information.

No material misstatements were noted from these additional areas of focus and emphasis.

We evaluated and challenged the Group's future cash flow forecasts and the process by which they were drawn up, and tested the underlying value in use calculations. We compared the Group's forecast to the latest Board approved three year plans and found them to be consistent.

In certain Specialist & Activity businesses, the key assumptions we focused on were the speed at which sales growth would be achieved, and whether cost savings could return some businesses to their former profitability. Factors we considered included new market opportunities and the cost savings from ongoing restructuring. Overall, we found the growth plans were achievable but that there was sufficient uncertainty to require management to disclose the sensitivities of key assumptions and these are included in note 10.

For the France mainstream business, we focused on the assumptions about the impact of the political unrest on sales in North Africa, management's ability to retain sales growth by offering alternative destinations and the impact of the downsizing restructuring of recent years. Based on the booking pattern of TUI France's customers this year and analysis of the size of the French market for overseas travel we concurred with management's position.

For the Online Accommodation business we focused on understanding and challenging management plans for future growth. We noted that these plans are driven by cost savings from shared IT platforms and back office functions for the key businesses in this cash generating unit (CGU) and considered these were achievable and within management's control. We applied sensitivities to the assumptions on speed and extent of market penetration, particularly in AsiaRooms and MalaPronta, this analysis showed that although different assumptions could have been made, those chosen by the Directors sat within an acceptable range.

We also challenged:

- the Directors' key assumptions for long-term growth rates in the Group's 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 performed sensitivity analysis around the long-term growth rates and discount rate to ascertain the extent of change in those assumptions that would be required for the goodwill and other intangible assets in individual CGUs to be impaired. We determined that a movement arising of this extent in those key assumptions was unlikely and that the disclosures made regarding the assumptions and the sensitivities drew attention to the more significant areas of judgement.

We reviewed the likely future cash flows from the Russia joint venture and focused on the speed at which the Russian market will return to trading levels similar to that achieved in 2013. The level of trading will determine the ability of the business to generate sufficient cash to repay the trading and non-trading balances. We agreed with management's conclusion to impair the loans and the October and November 2014 committed funding. We read investment committee and Board minutes and discussed with management and as a result were satisfied there is no unprovided committed funding to the Russia joint venture.

Independent Auditors' report to the members of TUI Travel PLC

continued

Area of focus

Provisions and other areas of balance sheet judgement

Refer to page 74 ('Provisions for claims and accruals' and 'Hotel prepayments' within the Audit Committee Report), page 123 (Significant Accounting Policies) and pages 154 & 158 (notes).

The relative size of the balances in the consolidated balance sheet compared to the size of the underlying operating profit of the Group makes the income statement very sensitive to changes in the consolidated balance sheet. Certain lines within the balance sheet, such as airline and hotel cost accruals (within accruals and deferred income of £1.5bn), provisions (£644m) and prepayments (£632m), require more judgement on the part of management and are therefore an area of greater focus for the audit.

In June 2014 TUI AG and TUI Travel PLC announced their intention to complete an all share nil premium merger.

The timing of the publication of certain documents related to the merger resulted in the need for management to make judgements on closing balance sheet positions earlier than usual during the year end process and to make an estimate of the year's underlying operating profit in early October 2014. Shareholders made decisions based on this estimate which placed additional pressure on management not to change the estimate of underlying operating profit and the judgements made.

Separately disclosed items (SDIs)

Refer to page 74 ('SDI' within the Audit Committee Report), page 116 (Significant Accounting Policies) and page 129 (notes).

Credits of £73m and debits of £72m have been included in SDI in the year ended 30 September 2014.

As separately disclosed items and other categories are excluded from underlying operating profit the nature and consistency of classification of these items is important in understanding the result for the year and is a matter of judgement.

Taxation

Refer to page 74 ('Tax' within the Audit Committee Report), Note 1 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates and notes 8 & 14.

There is significant complexity in the calculation of direct and indirect tax balances that arises from the complexity of the Group's legal structure (including multiple legal entities in non-fiscal consolidations), the multiple tax jurisdictions and changing tax environment in which the Group operates and the differing underlying systems used by the Group to generate accounting entries. In addition we focused on specific tax issues with respect to German trade tax (as set out in note 8 (iv)) and the VAT position of Hotelbeds Product SLU.

The Group also has deferred tax assets of £165m and liabilities of £67m in the balance sheet at 30 September 2014. During the year the Group has performed a review of all deferred tax assets and liabilities to ensure they have been calculated correctly and that they are substantiated by supporting documentation. There is judgement in the assessment of whether deferred tax assets will be utilised in future periods, particularly given the cyclical nature of the business and the difficulty in estimating when and where taxable profits will arise around the Group.

Risk of fraud in revenue recognition

See note 1 to the financial statements for the Directors' disclosures of the related accounting policies, judgements and estimates for further information.

We focused on recognition of revenue because there can be a significant difference between the timing of receipt of cash from customers and the subsequent recognition of revenue on the holiday departure date. Due to manual intervention and the high volume of transactions, the high number of different reservation systems and the interfaces of these with the accounting records there is the potential for deliberate manipulation or error.

How our audit addressed the area of focus

We assessed and tested the judgements made by both Group and local management teams relating to key balance sheet positions.

In particular, we challenged, for example by assessing against past history or agreeing to supporting evidence:

- the estimated costs associated with maintaining aircraft under existing lease agreements;
- the anticipated claim and payment rates used within the calculation of denied boarding compensation liability;
- the closing provisions associated with ongoing legal matters;
- the appropriateness of the carrying value of hotel prepayments;
- the appropriateness of the internal and external costs capitalised for development projects;
- the estimate of accruals for airlines and hotels costs; and
- the assumptions used within the calculation of pension liabilities.

In each case we considered the judgements made by management to be reasonable in light of the evidence provided.

We assessed the appropriateness of the policy for SDIs and whether the significant items that were included within the SDIs were appropriately classified. We also considered whether there were other significant items which should have been included as SDIs by obtaining a list of significant one-off transactions and assessing these against the policy for SDIs.

We found that the classification judgements and disclosures made by management were in line with the policy.

We assessed and formed our own views on the key judgements with respect to open tax positions and found that the judgements made by management were consistent with our views. We tested the calculations and payments in relation to the VAT position of Hotelbeds Product SLU and found no material misstatements.

We read the external advice the Group has received with respect to the assessment that no provision is required for German trade tax and concurred with management's conclusion and the resulting disclosures.

We understood the underlying transactions basis for significant deferred tax assets and liabilities and we found evidence to support the rationale on which the deferred tax assets and liabilities have been recognised.

We tested the calculations performed in respect of the locations within Group audit scope with particular emphasis on the UK where each legal entity files a separate tax return and Germany which includes two levels of tax – federal and state. We found no material misstatements from our testing.

Where the recoverability of deferred tax assets is dependent on future profits, such as in France, we checked that the forecasts used were consistent with the Board approved three year plan that we subjected to scrutiny as part of the goodwill impairment review.

We assessed the consistency of the application of the revenue recognition policy by reconsidering the accounting policy for the different sources of the Group's revenue. We tested the design and operating effectiveness of the controls (including IT controls) over revenue systems across the Group to determine the extent of additional substantive testing required and also tested key reservation system reconciliations at 30 September 2014. We found no material misstatements from our testing.

We checked that revenue had been recognised at the correct time by testing a sample of transactions and comparing the departure dates against which the revenue had been recognised. No exceptions were noted from our testing.

Our work also included testing a sample of manual journals which did not identify any items that could not be substantiated.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account: the geographic and management structure of the Group; the accounting processes and controls; and the industry in which the Group operates.

The Group is structured along three segment 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 within these segments 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 two other firms working under our instruction in respect of Canada and Russia. 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 18 reporting units due to the risk characteristics of those units, either due to the control environment or the nature of the business as an airline, another 16 reporting units so that the major source markets were covered across all sectors, six additional reporting units as a consequence of both the maturing control environment and our consultations with the Audit Committee and performed specified procedures on a further eight reporting units to cover specific balances.

In addition, we performed higher level procedures with respect to the remaining reporting units. The Group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team at the head office. These include derivative financial instruments, hedge accounting, pensions and share based payments. The Group engagement team also visited 15 businesses in nine countries (UK, Germany, France, Nordics, Belgium, Netherlands, Russia, Canada and Spain) to direct the planning, review the work undertaken and assess the findings.

Taken together, our audit work performed at individual component locations and at the head office addressed 87% of Group revenues and 83% of absolute Group operating profit (i.e. the sum of the numerical values without regard to whether they were profits or losses for the relevant reporting units). This gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£27.5 million (2013: £27.5 million)
How we determined it	4.5% of underlying operating profit (2013: 5%)
Rationale for benchmark applied	We note that underlying operating profit is the key measure used both internally by management and, we believe, externally by shareholders in evaluating the performance of the Group. This measure excludes SDIs, acquisition related expenses, impairments, tax on joint ventures and associates, interest and tax. We applied specific materiality levels for each of these items because of their particular sensitivity.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.4m (2013: £1.4m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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 within the Directors' Report on page 101, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes 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.

Independent Auditors' report to the members of TUI Travel PLC

continued

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 67 to 72 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

ISAs (UK & Ireland) reporting

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 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.
• the statement given by the Directors on page 102, in accordance with Code Provision C.1.1, 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 is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 73-76, as required by Code Provision C.3.8, 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.

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 to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

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 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 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.

What an audit of financial statements involves

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.

We focus our work primarily in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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.

Other matter

We have reported separately on the Parent Company financial statements of TUI Travel PLC for the year ended 30 September 2014 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

3 December 2014

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

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

FINANCIAL STATEMENTS

Consolidated income statement

for the year ended 30 September 2014

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Revenue	3	14,619	15,051
Cost of sales		(12,928)	(13,395)
Gross profit		1,691	1,656
Administrative expenses		(1,172)	(1,376)
Share of (losses)/profits of joint ventures and associates	12	(20)	17
Operating profit		499	297
<i>Analysed as:</i>			
Underlying operating profit	1(B)(ii), 3	612	589
Separately disclosed items	4	1	(24)
Acquisition related expenses	13(A)	(67)	(65)
Impairment of goodwill	10	–	(188)
Impairment of financial assets	12	(29)	–
Taxation on (losses)/profits and interest of joint ventures and associates	12	(18)	(15)
		499	297
Financial income	5	15	19
Financial expenses	5	(152)	(147)
Net financial expenses		(137)	(128)
Profit before tax		362	169
Taxation charge	8	(175)	(115)
Profit for the year		187	54
<i>Attributable to:</i>			
Equity holders of the parent		183	51
Non-controlling interests		4	3
Profit for the year		187	54
	Note	Year ended 30 September 2014 Pence	Year ended 30 September 2013 (restated) 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	16.4	4.6
Diluted earnings per share	33	16.3	4.6

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

Consolidated statement of comprehensive income

for the year ended 30 September 2014

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Profit for the year		187	54
Other comprehensive (loss)/income			
Items that will not be reclassified to profit and loss:			
Remeasurements of defined benefit pension scheme	6(C)	(192)	(11)
Tax on remeasurements of defined benefit pension schemes	8(iii)	45	(14)
Items that will not be reclassified to profit and loss		(147)	(25)
Items that may be subsequently reclassified to profit and loss:			
Foreign exchange translation		(159)	44
Foreign exchange gains recycled through the consolidated income statement		(1)	(1)
Cash flow hedges:			
– movement in fair value	26(J)	(28)	(76)
– amounts recycled to the consolidated income statement	26(J)	113	(5)
Tax on cash flow hedges	8(iii)	(17)	22
Available for sale financial assets:			
– movement in fair value	12	(1)	1
– amounts recycled to the consolidated income statement	12	1	–
Items that may be subsequently reclassified to profit and loss		(92)	(15)
Other comprehensive loss for the year net of tax		(239)	(40)
Total comprehensive (loss)/income for the year		(52)	14
Total comprehensive (loss)/income for the year			
<i>Attributable to:</i>			
Equity holders of the parent		(58)	15
Non-controlling interests		6	(1)
Total		(52)	14

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

FINANCIAL STATEMENTS

Consolidated balance sheet

at 30 September 2014

	Note	30 September 2014 £m	30 September 2013 £m
Non-current assets			
Intangible assets	10	4,299	4,384
Property, plant and equipment	11	1,267	1,238
Investments in joint ventures and associates	12	246	243
Other investments	12	25	36
Trade and other receivables	16	187	205
Derivative financial instruments	26(I)	30	3
Deferred tax assets	14	165	168
		6,219	6,277
Current assets			
Inventories	15	56	57
Other investments	18	18	36
Trade and other receivables	16	1,292	1,331
Income tax recoverable		51	24
Derivative financial instruments	26(I)	130	41
Cash and cash equivalents	17	1,374	1,753
Assets classified as held for sale	19	7	10
		2,928	3,252
Total assets		9,147	9,529
Current liabilities			
Interest-bearing loans and borrowings	20	(89)	(594)
Retirement benefits	6(C)	(4)	(3)
Derivative financial instruments	26(I)	(186)	(147)
Trade and other payables	21	(4,858)	(4,773)
Provisions for liabilities	22	(284)	(277)
Income tax payable		(67)	(76)
		(5,488)	(5,870)
Non-current liabilities			
Interest-bearing loans and borrowings	20	(774)	(1,012)
Retirement benefits	6(C)	(695)	(658)
Derivative financial instruments	26(I)	(15)	(26)
Trade and other payables	23	(104)	(79)
Provisions for liabilities	22	(360)	(362)
Deferred tax liabilities	14	(67)	(31)
		(2,015)	(2,168)
Total liabilities		(7,503)	(8,038)
Net assets		1,644	1,491
Equity			
Called up share capital	24	122	112
Share premium account	25	337	—
Convertible bond reserve	25	67	91
Other reserves	25	2,537	2,625
Accumulated losses	25	(1,464)	(1,378)
Total equity attributable to equity holders of the parent	25	1,599	1,450
Non-controlling interests	25	45	41
Total equity	25	1,644	1,491

The financial statements on pages 110 to 178 were approved by a duly authorised Committee of the Board of Directors on 3 December 2014 and signed on its behalf by:

Peter J Long
Chief Executive

Company number: 6072876

William H Waggott
Chief Financial Officer

Details of reserve movements are set out in Note 25 to the consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated statement of cash flows

for the year ended 30 September 2014

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Profit for the year		187	54
<i>Adjusted for:</i>			
Depreciation and amortisation	10,11	250	248
Impairment of intangible assets and property, plant and equipment	10,11	6	14
Impairment of goodwill	10	–	188
Equity-settled share-based payment expenses	6(D)	19	15
Profit on disposal of property, plant and equipment and intangible assets	7	(16)	(10)
Share of profit of joint ventures and associates	12	(8)	(17)
Profit on sale of investment	18	(1)	–
Loss/(profit) on foreign exchange	7	3	(19)
Impairment of financial asset	12	28	–
Change in value of assets held at fair value through profit and loss	12	1	(5)
Dividends received from joint ventures and associates	12	11	43
Past service credit and settlement gain recognised in consolidated income statement	6(C)	(67)	(25)
Financial income	5	(15)	(19)
Financial expenses	5	152	147
Taxation	8	175	115
Operating cash flow before changes in working capital and provisions		725	729
Decrease in inventories		3	3
(Increase)/decrease in trade and other receivables		(35)	63
Increase in trade and other payables		117	59
Belgian VAT receipt	17	–	98
(Decrease)/increase in provisions and retirement benefits		(19)	11
Cash flows generated from operations		791	963
Interest paid		(105)	(90)
Interest received		16	19
Income taxes paid		(125)	(110)
Cash flows generated from operating activities		577	782
Investing activities			
Proceeds from sale of property, plant and equipment		226	192
Acquisition of subsidiaries net of cash acquired	13(B)	(21)	(10)
Proceeds from disposal of other investments	18	31	–
Investment in joint ventures, associates and other investments	12	(27)	(41)
Acquisition of property, plant and equipment		(273)	(311)
Acquisition of intangible assets	10	(107)	(102)
Cash flows used in investing activities		(171)	(272)
Financing activities			
Proceeds from new loans and deposits taken		14	82
Repayment of borrowings		(43)	(44)
Repayment of finance lease liabilities		(26)	(26)
Dividends paid to ordinary and non-controlling interests	25	(153)	(132)
Cash flows used in financing activities		(208)	(120)
Net increase in cash and cash equivalents		198	390
Cash and cash equivalents at start of the year	17	1,753	830
Non-cash movement in bank overdrafts	17,20	(491)	491
Effect of foreign exchange on cash held		(86)	42
Cash and cash equivalents at end of the year	17	1,374	1,753

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

Movements in cash and net debt are presented in Note 27(A).

Cash flows generated from operating activities are analysed as:

		Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Cash flows generated from underlying operating activities		577	684
Belgian VAT receipt	17	–	98
Total cash flows generated from operating activities		577	782

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 2013, except for the adoption of the following new and amended International Financial Reporting Standards (IFRS) that are applicable to the Group for the year ended 30 September 2014:

- IAS 19 (revised) 'Employee benefits'
- IFRS 13 'Fair value measurement'
- Amendments to IFRS 7 Disclosures – Offsetting financial assets and financial liabilities
- IASB's Annual improvements project (2011)

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

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

The amendment to IAS 12 'Income taxes' on deferred tax is not currently applicable to the Group as it has no investment properties measured at fair value.

With the exception of the impact following the revision to IAS 19, which is disclosed below, these new and amended standards have had no significant impact on the consolidated results or financial position and therefore no restatement of the prior year's equity or profit has been presented. Additional disclosures in respect of the amendments to IFRS 7 are provided within these consolidated financial statements where applicable.

IAS 19 (revised) 'Employee benefits'

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

The revised standard has retrospective application and consequently the relevant charges or income in the consolidated income statement and the consolidated statement of comprehensive income for the financial year ended 30 September 2013 have been restated. The impact on opening retained earnings or net assets has not been dealt with as a prior year adjustment on the grounds of materiality.

The impact on the results for the year ending 30 September 2013 was as follows:

	Year ended 30 September 2013 (as previously reported) £m	Impact of IAS 19 (revised) £m	Year ended 30 September 2013 (restated) £m
Financial income	86	(67)	19
Financial expenses	(202)	55	(147)
Net financial expenses	(116)	(12)	(128)
Profit before tax	181	(12)	169
Taxation charge	(118)	3	(115)
Profit for the year	63	(9)	54
Other comprehensive loss	(49)	9	(40)

	Year ended 30 September 2013 (as previously reported) Pence	Impact of IAS 19 (revised) Pence	Year ended 30 September 2013 (restated) Pence
Basic earnings per share	5.4	(0.8)	4.6
Diluted earnings per share	5.4	(0.8)	4.6
Underlying earnings per share	30.8	(0.7)	30.1
Diluted underlying earnings per share	29.6	(0.7)	28.9

Had IAS 19 not been revised, for the year ending 30 September 2014, profit after tax would have been £17m higher, resulting from increased financial income, financial expenses and taxation of £80m, £58m and £5m respectively. Basic and diluted earnings per share would have been 1.5p and 1.3p higher respectively.

(A) Statement of compliance

The consolidated financial statements for the year ended 30 September 2014 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 3 December 2014.

(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 fair value. Non-current assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell. The consolidated financial statements are presented in the Group's presentation currency of Sterling, rounded to the nearest million. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates.

(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 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 financial assets, interest and taxation of joint ventures and associates and separately disclosed items included within the operating result.

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

continued

1. Accounting policies continued

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 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 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 2014 £m	Year ended 30 September 2013 (restated) £m
Underlying operating profit	3	612	589
Net underlying financial expenses	5	(137)	(128)
Underlying profit before tax		475	461

(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, Notes 26 and 34 set 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 2014, the main sources of debt funding included:

- a total of £1,225m bank revolving credit facilities which mature in June 2018;
- £175m of bonding and letter of credit facilities which mature in June 2018;
- £400m convertible bond due April 2017;
- £150m 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 bond; and
- £382m of drawn finance lease obligations with repayments up to June 2024.

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.

This is the case both in the scenario that the merger with TUI AG does not proceed, which is considered unlikely, and the scenario once the merger is completed, as TUI AG has agreed to provide facilities to enable, based on current expectations, TUI Travel PLC and its subsidiaries to continue operations for the foreseeable future.

(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, 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 and which is excluded from earnings per share calculations.

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 directly in equity.

(vi) Acquisition related expenses

Acquisition related expenses comprise amortisation of business combination intangibles, other acquisition and merger 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 on 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.

(D) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are initially recorded at the rate approximating to the foreign exchange rates ruling at the dates of the transaction for each entity. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the functional currency spot rate ruling at the reporting 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 from functional currency to Sterling at the foreign exchange rates ruling at the balance sheet date. The revenues and expenses of overseas operations are translated from functional currency at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on the translation are recognised in other comprehensive income through the translation reserve.

Foreign exchange gains and losses arising from monetary items 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)(ii) describes the basis on which fair value is determined.

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

continued

1. Accounting policies continued*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) describes the basis on which fair value is determined.

Derivatives

Derivatives are accounted for in accordance with the policy in Note 1(E)(iii).

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.

For convertible bonds, derecognition occurs on the date on which an irrevocable conversion notice to convert the bond to ordinary shares is received from the bond holder. The carrying value of the bond at the date of derecognition is extinguished and replaced by the nominal value of the ordinary share capital being issued with the balance being recognised in the share premium account, notwithstanding that the relevant ordinary shares may not have been legally issued on the date of derecognition. No gains or losses are recognised in the consolidated income statement on conversion.

(iii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate 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 hedging instruments 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.

In respect of ordinary shares being issued following the receipt of an irrevocable conversion notice from holders of the convertible bonds, these are considered to be fully paid on the date of the extinguishment of the liability and included within the share capital notwithstanding that they may not have been legally issued on the date of derecognition.

(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.

(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 our own holidays and services 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 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.

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

continued

1. Accounting policies continued**(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 the fair value of any plan assets is deducted in calculating the overall net 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 immediately.

Remeasurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other 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.

The interest charge on the net retirement benefit obligation is calculated by applying the applicable discount rate to the net retirement benefit obligations at the beginning of the financial year, taking account of any changes in the net retirement benefit obligation during the year as a result of contributions and benefit payments.

(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 employees become 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 cash and cash equivalents invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. 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.

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 are 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. 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(i). Licences have a finite useful life and are carried at cost less accumulated amortisation.

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

continued

1. Accounting policies continued**(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. Fair value adjustments are made in respect of property, plant and equipment acquired as part of a business combination, but are not subsequently remeasured to fair value.

(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, 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, 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, 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 or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

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. Impairments of loans to joint ventures and associates, including losses recognised when the Group has incurred legal or constructive obligations or made payments on behalf of a joint venture or associate, are recognised within the share of the result of joint ventures and associates and included within operating profit. Any cumulative loss in respect of an available for sale financial asset previously recognised in equity is recycled to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss can be 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. Note 3 contains further details of the Group's operating segments.

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. 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, which includes the expectation that they will be used for more than one financial year.

(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.

(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.

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

continued

1. Accounting policies continued

(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) 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 income-based methods. For all intangible assets, current use is determined to be the highest and best use of that asset. 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.

Brands are calculated by reference to the royalty rate that could be supported by the individual business unit profit margin, weighted for the strength of the brand acquired. Appropriate tax and discount rates are also applied to the valuation. Customer relationships are valued using the excess earnings methodology, which calculates the present value of the earnings the asset generates, net of a reasonable return on other assets also contributing to that stream of earnings. Inputs to the excess earnings methodology include applicable forecast sales to which the customer relationship contribute, the deduction of returns on all other assets and appropriate discount and tax rates.

(ii) 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.

(iii) 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.

(iv) Trade payables

Trade payables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method.

(v) 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.

(vi) 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.

(vii) 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.

(viii) Cash and cash equivalents and bank loans and overdrafts

The fair value disclosed for cash and cash equivalents and bank loans and overdrafts approximates to the carrying amount.

(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 2014:

- IFRS 10 'Consolidated financial statements'. This new standard replaces all 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. The adoption of this new standard, including the amendment to IFRS 10 on transition guidance, is not expected to have a material impact on the Group's profit before tax.
- IFRS 11 'Joint arrangements'. This new standard establishes principles for financial reporting by parties to a joint arrangement. The IFRS supersedes IAS 31 and SIC-13 and is concerned principally with the structure of the arrangement. Proportional consolidation of joint ventures is no longer allowed, but this itself will not impact the Group as all of the Group's joint ventures are currently equity accounted. The adoption of this new standard, including the amendment to IFRS 11 on transition guidance, is not expected to have a material impact on the Group's profit before tax.
- IFRS 12 'Disclosure of interests in other entities'. This new standard 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 adoption of this new standard, including the amendment to IFRS 12 on transition guidance, is not expected to have an impact on the Group's results but will amend certain disclosures in relation to joint ventures and associates.
- IAS 27 (revised 2011) 'Separate financial statements'. This revision 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 2011) 'Investments in associates and joint ventures'. This revision includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
- Amendments to IAS 32 on offsetting financial assets and liabilities. This amendment updates the application guidance in IAS 32 to clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet.
- IFRIC 21 'Levies'. This interpretation is in respect of IAS 37 'Provisions, contingent liabilities and contingent assets', clarifying that the obligating event that gives rise to a liability is the activity described in the relevant legislation that triggers the payment of the levy. Management are currently assessing the impact of adopting this pronouncement.

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.

Effective date: accounting periods commencing on or after

Not yet endorsed by the EU

Amendment to IAS 19 regarding defined benefit plans	1 July 2014
Annual improvements 2012	1 July 2014
Annual improvements 2013	1 July 2014
Annual improvements 2014	1 July 2016
Amendment to IFRS 11 'Joint arrangements' on acquisition of an interest in a joint operation	1 January 2016
Amendment to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets', on depreciation and amortisation	1 January 2016
IFRS 14 'Regulatory deferral accounts'	1 January 2016
IFRS 15 'Revenue from contracts with customers'	1 January 2017
IFRS 9 'Financial instruments' (including amendments to IFRS 9 on hedge accounting)	1 January 2018

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 Audit Committee has reviewed management's 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 conducted on all goodwill, together with intangible assets and property, plant and equipment 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 Board until achievable and realistic budgets are approved.

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continued

2. Key accounting estimates and judgements continued

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). This year we have also used external advisers to assist in the calculation of the weighted average cost of capital, using more robust long-term data to reduce the impact of short-term stock market volatility. 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).

During the final quarter of the year, agreement was reached with the Trustees of our three main UK defined benefit pension schemes to give members not yet drawing their pension the option to exchange non-statutory future increases in their pension for a higher initial pension at retirement with only limited (statutory) increases to be applied thereafter. A one-off reduction in pension liabilities of £28m has been recognised in respect of this, with the key estimated assumption in this calculation being the expected level of take up of the option on retirement to be 40% of those members offered. This key assumption of 40% has been made based on the experience of the exercise undertaken during the first half of the financial year, which was with current (as opposed to future) pensioner members, considerations specific to the non-pensioner population and evidence from other similar exercises. If the assumption had been set at 5% lower or higher than 40%, both of which are reasonably possible changes to this assumption, the one-off credit in respect of the reduction in pension liabilities would have been £3.5m lower/higher.

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 further costs to enable a new type of aircraft, the Boeing 787 Dreamliner, to continue 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).

Impairment of financial assets

In light of the ongoing challenging trading conditions in the Russian and Ukrainian source markets, together with the need for continued financial support from the Group, the Directors have considered the recoverability of term loans totalling £28m made to its joint venture that were made in previous years, the current year, and after the year end.

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.

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. 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, the French scheduled airline, 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 used to combine certain of these operating segments into reported segments.

The Specialist & Activity Sector operates under five divisions: Adventure, Education, North American Specialist, Events 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, 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 meeting 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 source markets, 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. 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 external 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.

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3. Segmental information continued

Segmental analysis

Year ended 30 September 2014

Sector	Total revenue £m	Intersegmental revenue £m	Total external revenue £m	Underlying operating profit/(loss) £m
UK & Ireland	4,024	(97)	3,927	271
Germany	3,981	(30)	3,951	113
Nordics	1,119	(11)	1,108	47
French tour operator	566	(1)	565	(29)
French airline	392	(12)	380	(7)
Hotels	247	(204)	43	4
Rest of Mainstream	2,540	(107)	2,433	147
Total Mainstream	12,869	(462)	12,407	546
Specialist & Activity	1,331	(2)	1,329	38
Accommodation & Destinations	1,054	(182)	872	80
Emerging Markets	11	–	11	(18)
All other segments and unallocated items	–	–	–	(34)
Total Group	15,265	(646)	14,619	612

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

Reconciliation of Group underlying operating profit to profit before tax

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Group underlying operating profit		612	589
Separately disclosed items	4	1	(24)
Acquisition related expenses	13(A)	(67)	(65)
Impairment of goodwill	10	–	(188)
Impairment of financial assets	12	(29)	–
Taxation on (losses)/profits and interest of joint ventures and associates	12	(18)	(15)
Operating profit		499	297
Net financial expenses	5	(137)	(128)
Profit before tax		362	169

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

Other segmental information

Sector	Capital expenditure		Total depreciation of property, plant and equipment and amortisation of intangible assets	
	2014 £m	2013 £m	2014 £m	2013 £m
UK & Ireland	254	244	78	83
Germany	59	50	20	18
Nordics	8	17	6	5
French tour operator	5	6	7	10
French airline	12	74	27	24
Hotels	18	9	14	15
Rest of Mainstream	102	80	23	22
Total Mainstream	458	480	175	177
Specialist & Activity	27	34	36	35
Accommodation & Destinations	35	40	38	33
All other segments and unallocated items	–	8	1	3
Total Group	520	562	250	248

Total capital expenditure of £520m (2013: £562m) comprises £107m (2013: £102m) of additions to intangible assets as shown in Note 10 and £413m (2013: £460m) of additions to property, plant and equipment as shown in Note 11.

Total depreciation of property, plant and equipment and amortisation of intangible assets of £250m (2013: £248m) comprises £102m (2013: £91m) of amortisation of intangible assets as shown in Note 10 and £148m (2013: £157m) of depreciation of property, plant and equipment as shown 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		Germany		Nordics		Other Europe		Rest of the World		Total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Revenue from external customers	4,652	4,700	3,952	4,161	1,135	1,101	3,992	4,253	888	836	14,619	15,051
Non-current assets	2,959	2,833	552	608	108	312	1,219	1,138	728	731	5,566	5,622

Revenue classification is 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 and Germany. 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.

4. Separately disclosed items

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Restructuring and other separately disclosed items	30	59
Aircraft and other assets	(6)	(23)
Pension related credit	(67)	(25)
VAT regularisation	41	–
Litigation provisions	1	13
Total (credit)/charge	(1)	24

Separately disclosed items within operating profit are included within the consolidated income statement as follows:

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Revenue	–	1
Cost of sales	(9)	4
Administrative expenses	8	19
Total (credit)/charge	(1)	24

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4. Separately disclosed items (continued)

Restructuring and other separately disclosed items

The overall charge of £30m includes £37m of restructuring costs. Within Mainstream these are primarily related to the 'One Mainstream' initiative and comprise: £14m in Germany arising from the restructure of support functions and the airline engineering department, £10m in France from the ongoing restructure of both the tour operator and the airline and £5m across other Mainstream businesses. In addition, £4m of restructuring charges have arisen in the Accommodation & Destinations Sector and £4m in Marine. There has then been £7m of credits arising from the profit on disposal of subsidiaries and the change in value of unhedged foreign currency derivative instruments relating to future seasons.

Included in the year ended 30 September 2013 charge of £59m were: Mainstream restructuring costs of £29m which principally related to the restructuring programmes in the French tour operator and airline; £18m restructuring costs incurred across the Specialist & Activity Sector 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; and £7m of restructuring costs across the Accommodation & Destinations Sector 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.

Aircraft and other assets

During the year ended 30 September 2014, a total credit of £6m has been recognised which arises from various aircraft transactions. £5m of this arose from sale and lease back transactions through taking delivery from Boeing of nine aircraft in the year, net of entry into service costs being incurred as additional Boeing 787 Dreamliners are brought into service. The comparative credit for various aircraft transactions for the year ended 30 September 2013 was £18m. There was also a credit of £1m (2013: £5m credit) recognised in the year on finalising the disposal of the majority of our interests in The Airline Group Limited, the transaction completing in March 2014.

Pension related credit

The £67m non-cash credit recognised in the year ended 30 September 2014 arose mainly from two UK pension transactions which generated a total credit of £61m. During the first half of the year the current pensioner members of the three main UK defined benefit pension schemes were given the option to exchange non-statutory future increases in their pension for a higher pension now with only limited (statutory) increases to be applied in future years. The level of acceptances reduced the present value of future pension liabilities and the resulting credit has been taken to the consolidated income statement under IAS 19 (revised) as it represents a change in plan benefits. Net of adviser costs, the credit to the consolidated income statement arising from this transaction was £33m.

In the fourth quarter, agreement was also reached with the Trustees of these three pension schemes to make the same option available to the members not yet drawing their pension and such members were notified in September. An assumption with respect to the expected level of take up of the option on retirement has been made based on the experience with current pensioner members, considerations specific to the non-pensioner population and evidence from other similar exercises and applying this assumption has resulted in a one-off reduction in pension liabilities of £28m. This credit has also been taken to the consolidated income statement under IAS 19 (revised) as it represents a change in plan benefits.

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

During the year ended 30 September 2013, the management and works council of TUI Nederland NV agreed to close their defined benefit pension scheme and replace it with a defined contribution scheme. This change was also classified as a past service gain under IAS 19 (revised) and the resultant reduction in accrued pension liabilities of £14m was recognised in the consolidated 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 generated a further credit in the consolidated income statement of £11m.

VAT regularisation

During the year ended 30 September 2014, advice was taken on the VAT position of Hotelbeds Product SLU, registered in Spain and located in the Canary Islands. Given the stricter interpretation of VAT regulations in Spain relating to businesses operating in the Canary Islands, the external advice received was to regularise the VAT position. Therefore during the year additional VAT payments of £40m have been made which relate to years prior to the current financial year and so have been included within separately disclosed items. A final payment of approximately £1m is expected to be made before the end of the calendar year to finalise the matter and has been accrued for accordingly. Late payment interest of £3m relating to this item has been included within financial expenses.

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 consolidated income statement of £1m.

In the year ended 30 September 2013, the Group's assessment of the likely outcome of the legal actions in which it was then involved resulted in a charge to the consolidated 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.

5. Net financial expenses

	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Financial income		
Bank interest receivable	15	19
Financial expenses		
Bank interest payable on loans and overdrafts	(18)	(23)
Finance charges on convertible bond	(53)	(63)
Net interest on pension scheme liabilities (Note 6(C))	(22)	(26)
Finance lease charges and interest on debt financed aircraft	(12)	(12)
Unwinding of discount on provisions (Note 22)	(6)	(5)
Facility fees	(19)	(13)
Change in the fair value of liabilities	(6)	–
Other financial expenses	(16)	(5)
Total	(152)	(147)
Net financial expenses	(137)	(128)

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

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 2014 Number	Year ended 30 September 2013 Number
By Sector		
Mainstream	39,346	38,381
Specialist & Activity	6,349	6,560
Accommodation & Destinations	11,034	10,029
Emerging Markets	194	8
Corporate	466	428
Total	57,389	55,406

(B) Employee costs

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Wages and salaries	1,488	1,489
Social security costs	238	231
Pension costs: Defined benefit pension scheme – past service and settlement credits disclosed in separately disclosed items	(67)	(25)
Pension costs: Defined benefit pension scheme cost	34	40
Pension costs: Defined contribution pension scheme cost	53	50
Share-based payments (Note 6(D))	21	17
Total	1,767	1,802

Included within employee costs are £31m (2013: £40m) of wages and salaries and £6m (2013: £4m) of social security costs in relation to redundancy costs and a £67m credit in relation to pension transactions that are included within separately disclosed items in Note 4. £21m of social security costs arising in the year ended 30 September 2013 have been reclassified in the comparative figures as defined contribution pension scheme costs following a review of pension costs throughout the Group.

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6. Employees (continued)**(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.

Defined benefit pension schemes

The movement of defined benefit pension obligations and assets is detailed below, summarised as the UK making up 85% (2013: 86%) of the Group's defined benefit obligation (DBO), Germany making up 12% (2013: 10%) and Other making up 3% (2013: 4%). Other obligations include funded schemes in Ireland, the Netherlands (up until the date of closure of this scheme in the year ended 30 September 2013), Switzerland and Norway (up until the date of closure in the current financial year), whilst the main unfunded arrangements are in Austria and France. Almost all UK schemes are funded whilst German schemes are unfunded.

The three largest UK Schemes are the Britannia Airways Limited Superannuation and Life Assurance Scheme, the TUI Pension Scheme (UK) and the Thomson Airways Pension Scheme and, at 30 September 2014, they account for 99.6% (2013: 99.6%) of the UK's DBO. These funded Schemes are closed to new members with the level of retirement benefit generally based on capped pensionable salary at retirement and length of service.

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

Unless otherwise stated, the information included within sections (i) – (vii) of this note below relates to the Group's UK DBO.

(i) Role of Trustees

The UK Schemes are funded with the assets held in separate trustee administered funds. The Trustees comprise representatives appointed by both the employer and Scheme members and include independent Trustees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible in particular for the asset investment policy plus the day-to-day administration of the benefits. They are also responsible for jointly agreeing with the employer the level of contributions.

(ii) Funding requirements

Valuations of the Schemes are made by qualified actuaries using market-based valuations for assets and the projected unit method for liabilities.

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). Within 15 months following each valuation date, the Trustees and the Group must agree the contributions required (if any) to ensure that the Schemes are fully funded over time on a suitably prudent measure. Contributions agreed in this manner constitute a minimum funding requirement.

As part of the funding of the UK Schemes, 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 main operating brands of the UK business, namely Thomson and First Choice, were transferred to the LLP and the three largest 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 in 2011, 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 consolidated balance sheet, equity, the IAS 19 (revised) deficit, or the consolidated income statement. The investment held by the pension Schemes does not meet the definition of a scheme asset under IAS 19 (revised), and is therefore not included within the fair value of Scheme assets disclosed in the consolidated financial statements. The recognition of the brand assets in the consolidated 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 consolidated balance sheet, are now being held as security for the PFP. See Note 10 for further information.

Valuations for the Britannia Airways Limited Superannuation and Life Assurance Scheme, the TUI Pension Scheme (UK) and the Thomson Airways Pension Scheme are currently held every two years and the latest valuations were undertaken as at 31 March 2012 by independent actuaries appointed by the Trustees. Agreement on the 2012 Scheme valuations and associated funding contributions was reached in September 2013. Based upon these valuations, employer contributions to the funded UK Schemes are expected to be £82m (2013: £116m) over the next year, including £17m (2013: £17m) in respect of income distribution from the PFP. Details of the current funding commitments of these three UK Schemes are shown in the table below. In addition to this funding, there is a performance related payment, based on the higher of annual growth in declared dividend payments or annual growth in underlying earnings before interest, tax and amortisation, measured on a constant currency basis. Once annual growth reaches 7%, payment is triggered, at the rate of £0.33m per 0.1% of growth above 7% up to annual growth of 10%. At 10%, the rate increases to £0.5m per 0.1%, subject to a cap of £85m for total deficit contributions, inclusive of the PFP payment of £17m.

The PFP contributions will terminate in 2026. The current level of deficit contributions detailed below are scheduled to end in October 2021, although they are subject to revision by the funding valuations. The performance related payment element of deficit funding is scheduled to end in 2016.

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	13.9% of pensionable salary plus £32.3m per annum deficit contribution and £12.2m PFP income	10.0%
TUI Pension Scheme (UK)	31 March 2012	11.5% of pensionable salary plus £13.3m per annum deficit contribution and £4.2m PFP income	7.2%
Thomson Airways Pension Scheme	31 March 2012	19.8% of pensionable salary plus £2.9m per annum deficit contribution and £0.5m PFP income	14.2%

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.

Valuations with an effective date of 31 March 2014 are currently in progress.

(iii) Assumptions

Assumptions under IAS 19 (revised) are set using the best estimate with reference to market conditions at the valuation date. The assets of each Scheme have been taken at market value whilst liabilities in each territory have been calculated using the following principal financial and demographic assumptions.

Financial assumptions

	UK ¹ per annum		Germany per annum		Other ⁴ per annum	
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Inflation: RPI or local equivalent ²	3.3	3.3	0.3	1.3	0.8	1.2
Pensionable salary inflation ³	2.7	2.7	2.5	2.5	1.8	2.4
Discount rate	3.9	4.4	2.3	3.5	1.7	2.7

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 Within the UK, CPI inflation is assumed to be 1.0% below RPI (2013: 1.0%).

3 UK pensionable salary increase is capped at 2.5% for all employees earning over £32,307.

4 The assumptions for Other are a weighted average.

Demographic assumptions

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)

	2014 Years	2013 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	23.2	23.1
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	24.6	24.5
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	25.6	25.5
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	27.1	27.0

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6. Employees (continued)

Germany life expectancy

	2014 Years	2013 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	18.9	18.8
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	21.6	21.4
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	23.0	22.8
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	25.5	25.4

Other life expectancy (weighted average)

	2014 Years	2013 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	20.2	20.7
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	21.7	23.0
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	23.3	23.2
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	24.8	25.6

(iv) Sensitivity analysis

The sensitivity of the DBO to the key financial and demographic assumptions is illustrated below:

	UK 2014 £m	Germany 2014 £m
Financial assumptions		
<i>Inflation</i>		
Increase in obligation due to increasing inflation by 0.5%	50	10
Decrease in obligation due to decreasing inflation by 0.5%	(42)	(9)
<i>Pensionable salary inflation</i>		
Increase in obligation due to increasing pensionable salary inflation by 0.5%	3	12
Decrease in obligation due to decreasing pensionable salary inflation by 0.5%	(3)	(11)
<i>Discount rate</i>		
Increase in obligation due to decreasing discount rate by 0.5%	205	30
Decrease in obligation due to increasing discount rate by 0.5%	(178)	(26)
Demographic assumptions		
<i>Mortality rate</i>		
Increase in obligation due to increasing all life expectancies by 1 year	63	6

The sensitivity analysis above has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the financial year and may not be representative of the actual change. It is based on the key assumptions while holding all other assumptions constant. The approach used in preparing the sensitivity analysis did not change compared with the previous financial year. Sensitivity analysis for Other Schemes has not been provided as there is no reasonably possible change to an assumption that would lead to a materially different DBO than currently recognised.

(v) Duration

The weighted average duration of the Group's UK obligations is 21 years, with individual UK Scheme durations ranging from 14 to 22 years. The weighted average duration of the Group's German obligations is 22 years, with individual German Scheme durations ranging from 22 to 25 years.

(vi) Composition of defined benefit obligations

The Group's UK DBO comprise 27% (2013: 26%) in relation to active members, 27% (2013: 27%) in relation to deferred members and 46% (2013: 47%) in relation to pensioner members at 30 September 2014. The Group's German DBO comprise 76% (2013: 73%) in relation to active members, 7% (2013: 7%) in relation to deferred members and 17% (2013: 20%) in relation to pensioner members at 30 September 2014.

(vii) Risks

Approximately 85% (2013: 86%) of the Group's defined benefit obligations as at 30 September 2014 are concentrated in the UK and this exposes the Group to a number of financial risks (asset risk, interest rate risk, inflation risk and foreign exchange risk) and demographic risk (mortality risk).

Asset risk

59% (2013: 64%) of the main UK Scheme's assets are invested in equity, property and alternatives which are expected to outperform corporate bonds in the long term, but are likely to increase the volatility of the balance sheet and risk of deficit in the short term. Investing in these asset classes also creates concentration and liquidity risk. Concentration risk is the risk that the performance of a single investment might negatively impact on the Trustees' ability to meet their objectives. Liquidity risk is the risk of a shortfall in cash relative to the short-term liabilities.

During the current financial year, two of the three main UK Schemes implemented Liability driven investment (LDI) strategies. The aim of these strategies is to invest in assets that hedge against interest rate risk and inflation risk (mentioned below).

The allocation of assets is reviewed by the Trustees to ensure it remains appropriate given the Schemes' long-term objectives and liquidity requirements.

Interest rate risk

All Schemes are subject to interest rate risk, where a decrease in corporate bond yields would increase the value placed on the DBO for accounting purposes, resulting in an increased deficit. However, this is partially mitigated by investing 41% (2013: 36%) in government bonds (gilts), corporate bonds, LDI and cash.

Inflation rate risk

A significant proportion of the Group's DBO is indexed in line with price inflation, specifically inflation in the UK Retail Price Index and Consumer Price Index, subject to defined caps and collars. Inflation risk is considered less significant due to the use of the caps and collars, such as pension increases not being fully linked to inflation. Additionally, the three main UK Schemes collectively hold some inflation-linked assets, which provide a partial hedge against higher than expected increases in inflation.

Foreign exchange risk

Overseas Schemes account for 15% (2013: 14%) of the Group's DBO and face similar risks compared to the UK Schemes, including asset risk, where funded. The Group faces two types of foreign exchange risk. The first is from assets within the UK Scheme that are denominated in a currency other than Sterling, the second from the consolidation of the Group's overseas Schemes that are in a functional currency other than Sterling. This latter risk is increased where a Scheme is unfunded, as foreign exchange movements on those Schemes' DBO are not matched by a corresponding foreign exchange movement in related assets.

Mortality risk

The majority of the Schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liability.

The Group has recently taken steps to reduce exposure to inflation and mortality risks. In November 2013, the Group commenced a Pension Increase Exchange (PIE) exercise with pensioner members of the three main UK schemes. Members were given the option to exchange non-statutory increases for a higher initial annual pension which increases in line with lower statutory requirements. 28% of members who received this offer chose to accept it, and this became effective from 1 April 2014. This exercise gave rise to a past service credit of £33m, net of adviser costs in the consolidated income statement.

In the fourth quarter of the year ending 30 September 2014, a second PIE exchange was implemented, to introduce PIE as part of the normal retirement options for all active and deferred members. This exercise gave rise to a past service credit of £28m, net of adviser costs in the consolidated income statement. Further details of the calculation of this credit is given in Note 2(A).

(viii) Past service costs and settlements

Details of the Group's PIE and the impact on the Group's consolidated financial statements for the year ended 30 September 2014 are included above.

The Norwegian defined benefit Scheme was closed in the financial year and the Scheme assets were used to buy insurance policies covering accumulated benefits. The closure of this Scheme generated a settlement gain of £4m, disclosed as a separately disclosed item in the consolidated income statement.

In the year ended 30 September 2013, the management and Works Council of TUI Nederland NV agreed to close the defined benefit pension Scheme and transferred those pension fund assets and liabilities to AEGON, a multinational life insurance, pensions and asset/management company headquartered in the Netherlands. The closure and transfer of assets and liabilities resulted in a past service credit of £14m and a settlement credit of £11m, both disclosed as separately disclosed items in the consolidated income statement.

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6. Employees (continued)

(ix) Key accounting results

Consolidated income statement disclosures

The Group recognises the results of its defined benefit pension schemes within the Group's consolidated income statement for the years ended 30 September 2014 and 30 September 2013 for each territory as follows. Further details of the 2013 restated figures are disclosed in Note 1.

	UK		Germany		Other		Total	
	2014 £m	2013 £m (restated)	2014 £m	2013 £m (restated)	2014 £m	2013 £m (restated)	2014 £m	2013 £m (restated)
Current service cost	18	17	12	12	4	6	34	35
Past service (credit)/cost	(63)	–	–	5	–	(14)	(63)	(9)
Settlement gain	–	–	–	–	(4)	(11)	(4)	(11)
Net interest on net defined benefit liability	15	19	7	6	–	1	22	26
Total	(30)	36	19	23	–	(18)	(11)	41

Consolidated balance sheet

A reconciliation of the Group's net defined benefit liability, analysed between the DBO and plan assets is as follows.

	Present value of defined benefit obligation £m	Fair value of plan assets £m	Net defined benefit liability £m
At 1 October 2012	1,991	(1,343)	648
Current service cost	35	–	35
Financial expense/(income) (restated)	81	(55)	26
Past service credit and settlement gains	(127)	107	(20)
(Credit)/charge to the consolidated income statement (restated)	(11)	52	41
Remeasurements of the net defined benefit liability			
Return on plan assets, excluding amounts in interest expense (restated)	–	(45)	(45)
Actuarial losses arising from changes in demographic assumptions	33	–	33
Actuarial losses arising from changes in financial assumptions	62	–	62
Actuarial gains arising from experience	(39)	–	(39)
Charge/(credit) to other comprehensive income (restated)	56	(45)	11
Employer contributions	–	(62)	(62)
Plan participants' contributions	1	(1)	–
Benefit payments	(86)	81	(5)
Business combinations	16	–	16
Foreign exchange	16	(4)	12
	(53)	14	(39)
At 30 September 2013	1,983	(1,322)	661

	Present value of defined benefit obligation £m	Fair value of plan assets £m	Net defined benefit liability £m
At 1 October 2013	1,983	(1,322)	661
Current service cost	34	–	34
Financial expense/(income)	81	(59)	22
Past service credit and settlement gains	(71)	4	(67)
Charge/(credit) to the consolidated income statement	44	(55)	(11)
Remeasurements of the net defined benefit liability			
Return on plan assets, excluding amounts in interest expense	–	(79)	(79)
Actuarial losses arising from changes in financial assumptions	238	–	238
Actuarial losses arising from experience	33	–	33
Charge/(credit) to other comprehensive income	271	(79)	192
Employer contributions	–	(117)	(117)
Plan participants' contributions	1	(1)	–
Benefit payments	(71)	65	(6)
Foreign exchange	(23)	3	(20)
	(93)	(50)	(143)
At 30 September 2014	2,205	(1,506)	699

The Group's DBO and plan assets by territory is analysed as follows:

	30 September 2014				30 September 2013			
	UK £m	Germany £m	Other £m	Total £m	UK £m	Germany £m	Other £m	Total £m
Present value of funded obligations	1,870	–	54	1,924	1,704	–	59	1,763
Fair value of plan assets	(1,458)	–	(48)	(1,506)	(1,272)	–	(50)	(1,322)
Deficit of funded plans	412	–	6	418	432	–	9	441
Present value of unfunded obligations	2	258	21	281	1	201	18	220
Recognised liability for defined benefit obligation	414	258	27	699	433	201	27	661
<i>Analysed as:</i>								
Retirement benefit current liabilities	–	3	1	4	–	3	–	3
Retirement benefit non-current liabilities	414	255	26	695	433	198	27	658
Total	414	258	27	699	433	201	27	661

(x) Assets

The fair value of the plan assets at the end of the financial year was as follows:

	30 September 2014			30 September 2013		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
UK equities	67	–	67	61	–	61
Overseas equities	455	–	455	442	–	442
Fixed interest gilts	104	–	104	166	–	166
Index linked gilts	73	–	73	94	–	94
Corporate bonds	144	–	144	127	–	127
Property	79	10	89	62	13	75
Emerging market debt	11	28	39	7	26	33
Emerging market currency	–	29	29	–	27	27
Diversified growth funds	–	63	63	–	75	75
Commodities	–	17	17	–	17	17
Catastrophe bonds	–	41	41	–	37	37
Liability driven investment	159	–	159	–	–	–
Alternative credit	49	18	67	50	4	54
Cash & cash equivalents	–	114	114	–	67	67
Insurance and other	–	45	45	–	47	47
Total fair value of scheme assets	1,141	365	1,506	1,009	313	1,322

There is no direct investment in financial instruments issued by the Group, or in property occupied by the Group. Investments in passive index tracker funds may hold a proportionate investment in TUI Travel PLC.

(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.

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6. Employees (continued)

At 30 September 2014, the ordinary shares that were allocated, outstanding and subject to performance conditions were as follows:

Share award scheme	Number of shares 2014	Number of shares 2013	Date due to vest/ date vested
Performance Share Plan	– 3,042,857 193,243 1,851,735 1,281,570	1,851,300 3,042,857 193,243 1,851,735 –	6 December 2013 7 December 2014 1 June 2015 6 December 2015 12 December 2016
Deferred Annual Bonus Scheme	– 5,200,660 3,497,428 2,448,328	3,535,905 5,200,660 3,604,844 –	6 December 2013 7 December 2014 6 December 2015 12 December 2016
Deferred Annual Bonus Long-Term Incentive Scheme	– 3,598,741 2,105,670 1,843,523	2,032,726 3,601,638 2,211,179 –	6 December 2013 7 December 2014 6 December 2015 12 December 2016
Total	25,063,755	27,126,087	

The number of share awards at the beginning and end of the year is as follows:

	Number of awards 30 September 2014	Number of awards 30 September 2013
Outstanding at the beginning of the year – excluding deferred shares	27,126,087	28,249,566
Forfeited during the year	(461,473)	(3,846,929)
Exercised during the year	(7,295,337)	(5,076,118)
Granted during the year	5,694,478	7,799,568
Outstanding at the end of the year – excluding deferred shares	25,063,755	27,126,087

In addition to the above shares, there are 2,813,458 (2013:3,118,873) deferred shares that are outstanding and allocated, but not subject to performance conditions, in relation to the Deferred Annual Bonus Scheme. These are due to vest between 7 December 2014 and 12 December 2016.

In respect of the Deferred Annual Bonus Long-Term Incentive Scheme there are an additional 4,411,903 (2013: 4,465,568) deferred shares that are outstanding and allocated but which are not subject to performance conditions. These are due to vest between 7 December 2014 and 12 December 2016.

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:

	2014	2013
Information relating to fair values of shares awarded		
Fair value at measurement date	£1.65-£3.28	£1.45-£2.45
Share price	£3.77	£2.84
Expected volatility	30.6%	35.5%
Award life	3 years	3 years
Expected dividends	4.67%	4.94%
Risk free interest rate	0.78%	0.42%

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.

Employee expenses for the year

Employee expenses for the current and prior year relating to share-based schemes are:

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Equity-settled	19	15
Expense arising for share appreciation rights	2	2
Total	21	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.

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%

- Up to one quarter of the matching shares will vest based on the Group's ranking of 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	9 Finnair	17 Pierre & Vacances
2 Air Berlin	10 FirstGroup	18 Priceline.com
3 Air France-KLM	11 Flight Centre	19 Royal Caribbean Cruises
4 Carnival	12 Hertz Global Holdings	20 Ryanair Holdings
5 Club Mediterranee	13 International Consolidated Airlines Group	21 Stagecoach Group
6 Deutsche Lufthansa	14 Kuoni Group	22 Thomas Cook Group
7 easyJet	15 National Express Group	23 Wotif.com Holdings
8 Expedia	16 Norwegian Air Shuttle	

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 2014 £m	Year ended 30 September 2013 £m
Emoluments	6	7
Pensions and other retirement benefits	1	1
Total	7	8

Further information, including long-term incentive plans, is provided in the audited section of the Remuneration Report.

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7. Income, expenses and auditors' remuneration

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Included within operating profit in the consolidated income statement for the year are the following (credits)/charges:		
Operating lease income: aircraft	(39)	(40)
Operating lease income: land and buildings	(2)	(2)
Operating lease rentals: land and buildings, aircraft and other equipment	584	604
Depreciation of property, plant and equipment	148	157
Amortisation of intangible assets: business combination intangibles	51	57
Amortisation of intangible assets: other intangibles	51	34
Charge for share-based payments	21	17
Profit on disposal of property, plant and equipment and intangible assets	(16)	(10)
Loss/(profit) on foreign currency retranslation	3	(19)
Impairment of goodwill and other intangible assets	—	199
Impairment of financial assets	29	—
Impairment of property, plant and equipment	6	3

In addition to the operating lease rentals disclosed above, charges of £101m (2013: £102m) 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 utilisation. Up to seven aircraft are leased to other airline companies at fixed rates. In addition, up to 14 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 future minimum lease income under non-cancellable operating leases is as follows:

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Minimum lease income under non-cancellable operating leases arising:		
Within one year	24	32
Between one and five years	27	49
Later than five years	16	23
Total	67	104

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 2014 £m	Year ended 30 September 2013 £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	5
Auditors' remuneration for audit services	6	6
Other services provided to comply with legislation ¹	1	1
Audit and audit related services	7	7
All other services	2	2

¹ Relate principally to the interim review and airline regulatory returns.

Fees charged to the consolidated income statement in 2014 in respect of all other services, totalling £2m, includes £562,000 for their work on a variety of consultancy engagements, £292,000 for providing advice on several IT projects and £240,000 of tax advice in respect of expatriates.

Fees charged to the consolidated income statement in 2013 in respect of all other services, totalling £2m, included £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.

8. Taxation

The tax charge can be summarised as follows:

(i) Analysis of charge in the year

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Current tax charge			
UK corporation tax on profit for the year		8	6
Non-UK tax on profit/loss for the year		88	92
Adjustments in respect of previous years		(3)	45
		93	143
Deferred tax charge/(credit)			
Origination and reversal of temporary differences:			
Current year UK		38	6
Current year non-UK		20	7
Changes in tax rates		(2)	4
Adjustments in respect of previous years		26	(45)
	14	82	(28)
Total income tax charge in consolidated income statement		175	115

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

Following a review of the Group's deferred tax balances in the year, the Directors have written off certain deferred tax assets totalling £26m where there is no longer sufficient certainty of the timing of any benefits that might arise in the future and which have been treated as a separately disclosed tax item for the purpose of calculating underlying earnings per share, as disclosed in Note 33. As part of this review, £23m of deferred tax liabilities have been written back to reserves in the year, principally in respect of the convertible bonds.

In the year ended 30 September 2013, certain tax balances were adjusted to reflect the position of the latest local statutory accounts and tax returns. These adjustments were reflected in the consolidated income statement in that year but due to their underlying nature, were not treated as separately disclosed tax items for the purpose of calculating underlying earnings per share.

(ii) Reconciliation of effective tax rate

The total tax charge (2013: charge) for the year is higher (2013: higher) than the standard rate of corporation tax in the UK of 22% (2013: 23.5%). The differences are explained below:

	Year ended 30 September 2014		Year ended 30 September 2013 (restated)	
	£m	%	£m	%
Profit before tax reported in the consolidated income statement	362		169	
Excluding share of losses/(profits) in joint ventures and associates (Note 12)	20		(17)	
	382		152	
Income tax on profit before tax excluding share of losses/profit of joint ventures and associates at the standard rate of UK tax of 22% (2013: 23.5%)	84	22	36	24
Expenses not deductible for tax purposes	34	9	51	34
Income not taxable	(5)	(1)	(10)	(7)
Tax losses not recognised as an asset	26	7	33	22
Tax adjustments to deferred tax assets previously recognised	18	5	—	—
Utilisation of tax losses not previously recognised	(6)	(2)	(7)	(5)
Higher tax rates on overseas earnings	3	1	8	5
Changes in tax rates	(2)	(1)	4	3
Adjustments to taxation in respect of previous years	23	6	—	—
Total income tax charge in consolidated income statement	175	46	115	76

Comparative figures for the year ended 30 September 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'.

The underlying effective rate of taxation for the year ended 30 September 2014 is calculated based on the underlying profit before tax (excluding separately disclosed items, acquisition related expenses and impairment charges) and equates to 31%. The actual tax rate of 46% differs from the underlying effective tax rate primarily due to the separately disclosed tax item referred to in Note 8(i) above.

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8. Taxation (continued)

(iii) Deferred tax recognised outside of the consolidated income statement

The following taxation charge/(credit) has been recognised outside of the consolidated income statement:

	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Tax relating to components of other comprehensive income		
Cash flow hedges	17	(22)
Defined benefit pension plans	(45)	14
Total tax credited to other comprehensive income	(28)	(8)
Tax relating to components of equity		
Convertible bonds	(23)	(3)
Share based payments	(6)	–
Total tax credited directly to equity	(29)	(3)
Total	(57)	(11)

Comparative figures for the year ended 30 September 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'.

(iv) Factors affecting future tax charge

A) At the balance sheet date, the Finance Act 2014 had been enacted confirming that the main UK corporation tax rate will reduce to 20% with effect from 1 April 2015. Therefore, at 30 September 2014, 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. There have been no substantive administrative, legislative or judicial developments on this matter during 2014.

The Group continues to disagree with the German tax authorities' interpretation of this matter. It is possible that this issue will have to be litigated through the German tax courts and it could take a considerable amount of time to bring 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 last seven years (2013: six years) could be up to a total of approximately £90m (2013: £80m), 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

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

9. Dividends

The following dividends which relate to the Company's ordinary shares have been deducted from equity in the year:

	Pence per share	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
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
Dividends relating to the year ended 30 September 2013			
Interim dividend (paid October 2013)	3.75	42	–
Final dividend (paid April 2014)	9.75	108	–
	13.5	150	–

The interim dividend in respect of the year ended 30 September 2014 of 4.05p per share was paid on 3 October 2014 and this dividend of £46m will be recognised as a deduction from equity in the year ending 30 September 2015.

On 15 September 2014, as part of the Rule 2.7 announcement, the Directors announced that the Company will, immediately prior to completion of the merger with TUI AG, declare and pay a second interim dividend of 20.5p per share, which includes a 10.5p dividend per share in lieu of a final dividend for the financial year ended 30 September 2014. This second interim dividend will be payable to those shareholders on the register of members of the Company at the Scheme Record Time and will be paid prior to completion of the merger, conditional on the Court Order having been granted at the Scheme Court Hearing.

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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 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
Additions	1	–	–	45	1	60	–	107
Acquisition through business combinations	23	8	4	–	–	–	–	35
Disposals	(4)	–	–	(12)	(4)	(6)	–	(26)
Foreign exchange	(130)	(10)	(11)	(15)	(2)	(1)	(3)	(172)
Reclassification of asset class	–	–	–	50	–	(50)	–	–
At 30 September 2014	4,395	458	196	421	21	96	163	5,750
Accumulated amortisation and impairment losses								
At 1 October 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)
Amortisation for the year	–	(25)	(14)	(54)	(1)	–	(8)	(102)
Disposals	2	–	–	12	2	6	–	22
Foreign exchange	30	4	5	7	2	–	3	51
Reclassification of asset class	–	–	–	1	(1)	–	–	–
At 30 September 2014	(807)	(183)	(95)	(242)	(17)	(5)	(102)	(1,451)
Net book value								
At 1 October 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
At 30 September 2014	3,588	275	101	179	4	91	61	4,299

Additions to computer software and software in development totalling £105m (2013: £101m) include costs relating to major IT development projects across all Sectors within the Group, including the implementation of SAP across certain Mainstream source markets and the development of digital solution platforms for our customers.

Amortisation of intangible assets is recognised within cost of sales in the consolidated income statement. Amortisation of business combination and other intangibles together with depreciation of property, plant and equipment is disclosed by segment in Note 3.

The Group has 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 consolidated 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 £87m (2013: £94m), 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	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
First Choice brand	87	94	–	–	–	–
Marmara brand	23	27	–	–	–	–
Accommodation Wholesaler customer relationships	–	–	55	66	–	–
Landing slots	–	–	–	–	26	28
	110	121	55	66	26	28

The First Choice and Marmara brands are major brands of the UK & Ireland and French tour operating businesses respectively and have a remaining amortisation period of 13 years (2013: 14 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 eight years (2013: nine years). The landing slots are in respect of the UK & Ireland business for airports in the UK and have a remaining amortisation period of 13 years (2013: 14 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 3.55% (2013: 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 five year 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 across 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, with input from external advisers.

An analysis of the aggregate and material carrying amounts of goodwill allocated to each principal CGU, including goodwill for those CGUs which are sensitive to reasonably possible changes in key assumptions, together with the growth rates being applied to cash flows beyond the five year plan period and the pre-tax discount rates used for each CGU is as follows:

Sector	CGU	Goodwill		Growth rate applied to cash flows after five year plan		Pre-tax discount rate used	
		30 September 2014 £m	30 September 2013 £m	30 September 2014 %	30 September 2013 %	30 September 2014 %	30 September 2013 %
Mainstream	UK & Ireland	1,490	1,490	2.4	2.45	9	10
Mainstream	Germany	384	407	1.3	1.4	10	11
Accommodation & Destinations	Accommodation Wholesaler	365	385	2.0	2.0	11	11
Mainstream	Nordics	265	271	2.1	2.2	10	11
Accommodation & Destinations	Accommodation OTA	215	239	3.23	3.43	10	10
Mainstream	French tour operator	125	137	1.8	1.75	9	10
Specialist & Activity	Specialist Holidays Group	131	112	2.4	2.45	9	10
Specialist & Activity	Adventure	101	129	2.73	2.78	9	11
Specialist & Activity	Marine	63	73	2.0	2.1	10	10
Specialist & Activity	North American Education	40	22	2.3	2.2	11	11
Specialist & Activity	Events (formerly Sport)	29	15	2.73	2.73	10	10
All Sectors	Multiple CGUs	380	386	1.0-3.55	1.0-3.9	9-13	10-14
Total goodwill		3,588	3,666				

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.

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 consolidated 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.

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10. Intangible assets continued

No goodwill impairment charges have arisen in the year ended 30 September 2014 since the recoverable amount for all CGUs tested was at least equal to the carrying amount. Goodwill impairment charges in the comparative year ended 30 September 2013 totalling £188m equalled 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	Pre-tax discount rate	Long-term growth rate
		2013 £m	2013 %	2013 %
Mainstream – France	French tour operator	59	10	1.75
Specialist & Activity	Marine	39	10	2.1
Specialist & Activity	Events (formerly Sport)	26	10	2.73
Specialist & Activity	Experience Education	22	10	2.2
Specialist & Activity	North American Education	22	11	2.2
Mainstream – Southern Europe	Italy	9	10	1.0
Mainstream – Southern Europe	Spain	1	14	1.8
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 previous year		188		

All of the impairment charges arising from the Group's annual impairment test in the year ended 30 September 2013, which totalled £178m, arose as a result of a deterioration in forecast trading results. 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 arose since the cash flow model based on the current five year plan did not support the carrying amount of goodwill for these CGUs.

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.

CGU	Impairment charge arising from a reasonably possible change in assumption:			
	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
North America Education	40	4	5	12
Events	29	3	5	8
Marine	63	–	–	29
Adventure	101	–	–	5
Accommodation OTA	215	–	–	75
	448	7	10	129

In respect of the North American Education and Events CGUs, the recoverable amount equals the carrying amount and therefore any change to an assumption used in the test will cause an impairment. For the Marine, Adventure and Accommodation OTA CGUs, the recoverable value would equal the carrying amount if the long-term percentage growth rate reduced by 0.7%, 2.4% and 0.8% respectively. Additionally, the recoverable value would equal the carrying amount if the cash flows do not increase by £6m, £6m and £30m over the five year plan in the Adventure, Events and Accommodation OTA CGUs respectively.

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 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
Foreign exchange	(19)	(3)	(25)	(1)	(4)	(25)	(77)
Acquisitions through business combinations	1	—	—	—	—	1	2
Transfers to inventory	—	(4)	—	—	—	—	(4)
Additions	16	19	149	169	10	50	413
Disposals	(6)	(20)	(40)	(187)	(8)	(27)	(288)
Reclassifications	30	1	8	—	10	(43)	6
At 30 September 2014	328	442	902	167	92	351	2,282
Accumulated depreciation and impairment							
At 1 October 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)
Foreign exchange	8	—	19	—	4	15	46
Depreciation on transfers to inventory	—	3	—	—	—	—	3
Provided in the year	(17)	(26)	(63)	—	(12)	(30)	(148)
Disposals	5	14	35	—	7	21	82
Impairments	—	(6)	—	—	—	—	(6)
Reclassifications	(9)	—	—	—	(5)	14	—
At 30 September 2014	(153)	(189)	(408)	—	(64)	(201)	(1,015)
Net book value							
At 1 October 2012	171	273	250	215	24	163	1,096
At 30 September 2013	166	275	411	186	26	174	1,238
At 30 September 2014	175	253	494	167	28	150	1,267

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11. Property, plant and equipment continued

Impairment charges

The £6m impairment charge in the year ended 30 September 2014 relates to the impairment of one owned ship within the UK & Ireland operating segment. The impairment charge is included within cost of sales.

Additions to aircraft and equipment

Additions of £149m (2013: £187m) to aircraft and equipment primarily relates to the purchase of aircraft during the year, including aircraft on finance leases, as well as fleet improvements and capitalised maintenance on owned aircraft.

Advance payments for future delivery of aircraft

Additions of £169m (2013: £140m) to advance payments for future delivery of aircraft were due to payments made for the future delivery of 75 aircraft (2013: 76 aircraft) and interest of £8m (2013: £8m) that has been capitalised during the year at a rate of 5.4% (2013: 5.4%).

The disposal of £187m (2013: £136m) from advance payments for future delivery of aircraft arises from the delivery and then sale and leaseback of nine aircraft (2013: 13 aircraft).

Other disclosures

Other equipment with a combined net book value as at 30 September 2014 of £150m (2013: £174m) includes £92m (2013: £94m) of fixtures and fittings, £36m (2013: £55m) of property, plant and equipment under construction and £22m (2013: £23m) of motor vehicles. Additions of other equipment totalling £50m (2013: £75m) relate to £29m (2013: £23m) of fixtures and fittings, £14m (2013: £44m) of property, plant and equipment under construction and £7m (2013: £8m) of motor vehicles.

Reclassifications to land and buildings in the year of £30m (2013: £3m) from other equipment primarily relate to buildings, including the Group's new Belgium aircraft hangar, that were under construction in the prior year and which have been brought into use during the current year.

Land and buildings comprise freehold and long leasehold properties with net book values of £131m (2013: £116m) and short leasehold properties with a net book value of £44m (2013: £50m) respectively.

The net book value of assets held under finance leases and hire purchase contracts at 30 September 2014 was £423m (2013: £315m). This includes £79m (2013: £89m) of yachts, motor boats and cruise ships, £325m (2013: £210m) of aircraft, £5m (2013: £6m) of land and buildings and £14m (2013: £10m) 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 £101m (2013: £161m).

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 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)
(Loss)/profit after tax for the year	(7)	24	17
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
Share of (losses)/profits before amortisation, interest and tax for the year	(3)	32	29
Share of interest and tax charge	(9)	(9)	(18)
Share of amortisation for the year	—	(3)	(3)
(Loss)/profit after tax for the year	(12)	20	8
Additions	27	—	27
Disposals	(2)	—	(2)
Dividends paid	(1)	(10)	(11)
Foreign exchange	(8)	(11)	(19)
At 30 September 2014	89	157	246

The Group's share of joint venture and associate profit after interest and tax was £8m (2013: £17m). The result in the current year is shown before an impairment of £28m (2013: £nil) against loans made to the Group's joint venture operating in the Russian and Ukrainian source markets given the ongoing challenging trading conditions in that environment and £11m (2013: £nil) of losses not recognised for this joint venture, the latter amount being because it would have reduced the Group's carrying value for its share of the joint venture's net assets below zero. Including the impairment of £28m, the share of losses of joint ventures and associates disclosed in the consolidated income statement is £20m (2013: £17m profit) for the year.

Impairment of financial assets

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Impairment of loans to Russian joint venture	28	—
Change in the fair value of available for sale financial assets—Air Berlin	1	—
Impairment of financial assets	29	—

Investments in and transactions with joint ventures

During the year, the Group invested £18m into Bartu Turizm Yatirimlari Anonim Sirketi, a 50% joint venture of the Group, and £8m into Togebi Holding Limited, a 49% joint venture of the Group. The Group also acquired a further 41% shareholding in the former joint venture Le Passage to India Tours and Travels Private Limited that it did not already own. Further details of this acquisition are provided in Note 13.

In addition, the Group received a dividend of £7m (2013: £28m) from Sunwing Travel Group Inc, a 25% associate of the Group.

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
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
Bartu Turizm Yatirimlari Anonim Sirketi	50.0	Hotel operator	Turkey
Associates			
Sunwing Travel Group Inc	25.0	Tour operator	Canada
Blue Diamond Hotels and Resorts Inc	49.0	Hotel operator	Barbados
Grupo De Inversiones Lunar S.R.L	49.0	Hotel operator	Dominican Republic

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.

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12. Investment in joint ventures, associates and other investments continued

A summary of the Group's share of the results, assets and liabilities of its associates and joint ventures for the year ended 30 September 2014 is shown below:

	Joint ventures 2014 £m	Associates 2014 £m	Total 2014 £m	Joint ventures 2013 £m	Associates 2013 £m	Total 2013 £m
Revenue	310	608	918	429	571	1,000
Operating costs	(313)	(579)	(892)	(428)	(540)	(968)
Operating (loss)/profit	(3)	29	26	1	31	32
Net interest (payable)/receivable	(6)	–	(6)	(4)	1	(3)
(Loss)/profit before taxation	(9)	29	20	(3)	32	29
Taxation	(3)	(9)	(12)	(4)	(8)	(12)
(Loss)/profit after taxation for the year	(12)	20	8	(7)	24	17
Non-current assets	145	255	400	122	183	305
Current assets	95	155	250	104	154	258
Total assets	240	410	650	226	337	563
Current liabilities	(75)	(160)	(235)	(72)	(128)	(200)
Non-current liabilities	(87)	(93)	(180)	(69)	(51)	(120)
Total liabilities	(162)	(253)	(415)	(141)	(179)	(320)
Net assets	78	157	235	85	158	243
Losses not recognised	11	–	11	–	–	–
Total net assets	89	157	246	85	158	243

The above results exclude an impairment of £28m against loans made to the Group's joint venture operating in the Russian and Ukrainian source markets given the ongoing challenging trading conditions in that environment and £11m (2013: £nil) of losses not recognised for this joint venture as it would have reduced the Group's carrying value for its share of the joint venture's net assets below zero. See Note 31 for details of loans with Togebi Holdings Limited.

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 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 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.

During the year ended 30 September 2014, TUI Travel Holdings Limited, a direct subsidiary of the Company, injected a further £8m of capital into Togebi Holdings Limited and provided one year interest-bearing loans totalling £10m for the purpose of providing short-term liquidity. These loans have been included within the £28m impairment disclosed above. After the year end, TUI Travel Holdings Limited provided further loans to Togebi Holdings Limited totalling £10m for the same purpose. As the Group had a constructive obligation to lend this amount at the year end, the amount has been included within the £28m impairment noted above.

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 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
Acquisition through business combinations	1	–	1
Disposals	(1)	–	(1)
Investments consolidated for the first time	–	(8)	(8)
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	(1)	–	(1)
Foreign exchange	–	(1)	(1)
At 30 September 2014	21	4	25

Trade and listed investments at 30 September 2014 represent the Group's 3.8% (2013: 4.4%) shareholding in Air Berlin PLC and a 10% (2013: 10%) holding in 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. Due to the prolonged decline in the equity share price of Air Berlin PLC, in accordance with IAS 39, a diminution in value of the investment of £1m, which was previously recognised in the consolidated statement of comprehensive income, has now been charged to the consolidated income statement and separately analysed within impairment of financial assets.

Non-consolidated entities are recorded at cost and reflect the Group's net investment held in 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 2014

Acquisitions were made in the year for a total investment value of £31m 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 £3m 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 £23m.

The one significant business acquired in the year, on 20 December 2013, was a further 41% of the voting equity shares of Le Passage to India Tours and Travels Private Limited ('LPTI'), a tour operator and destination management company incorporated in India. The Group previously owned 50% of LPTI and accounted for this as a joint venture. The total consideration for this step acquisition was £20m, including £10m of non-cash consideration for the Group's share of LPTI that it previously owned.

Two other step acquisitions made during the year, in which the Group acquired the remaining 50% of the voting equity shares that the Group did not previously own, were of OFT Reisen GmbH, incorporated in Germany, and Voukouvalidis Tours Tourism, SA, incorporated in Greece.

Other individually insignificant businesses include six German-based travel agency businesses and 51% of the voting share capital of Global Obi, S.L. (known as ROI Back).

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	10	11	9
5+	1	20	14
Total	11	31	23

The total fair value of the consideration for these acquisitions was £31m, comprising £19m initial cash consideration, £1m deferred consideration, and £11m non-cash consideration for the Group's share of the acquired joint ventures.

The total provisional net assets acquired are set out below:

	Fair value of net assets acquired £m
Intangible assets	12
Property, plant and equipment	2
Investments	1
Trade and other receivables	11
Cash	5
Current liabilities	(19)
Deferred tax liabilities	(4)
Net assets	8
 Total consideration	 31
Less net assets acquired (as above)	(8)
Total goodwill	23

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.

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 acquisitions in the current year predominantly relates to the acquisition of LPTI and represents the ability to control fully that business with a view to driving economies of scale and participating fully in the Indian market.

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13. Business combinations continued

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, £10m (2013: £8m) has been expensed in the year and included within the acquisition related expenses in the consolidated income statement. A further £6m has been incurred as part of the forthcoming merger with TUI AG.

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Acquisition related expenses in operating profit		
Amortisation of business combination intangibles	51	57
Merger related expenses	6	—
Other acquisition related expenses	3	2
Remuneration for post-combination services	7	6
Total	67	65

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 2013	5	7	1	13
Adjustments in respect of prior year acquisitions	—	(1)	—	(1)
Recognised in the year	—	5	—	5
Cash paid	(1)	(6)	—	(7)
Foreign exchange	—	(1)	—	(1)
At 30 September 2014	4	4	1	9

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 earnout period.

A £1m adjustment to amounts recognised in respect of prior year acquisitions has 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 current and prior year acquisitions is listed below.

The expected contingent consideration for all acquisitions is calculated using multiples of underlying earnings, with some amounts payable dependent upon employment. 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
JBS Group, Inc	Earnings and employment	2013	Up to 31 March 2015	0-3
LPTI	Earnings and employment	2014	Up to 31 December 2018	0-6
Other individually insignificant considerations payable	Earnings (alone) and earnings & employment	2013-2014	Up to 30 September 2016	0-2
Total range of contingent consideration payable in respect of current and prior year acquisitions				0-11

(B) Cash flows arising in respect of acquisitions

Total cash flows in the year relating to acquisitions, including amounts paid in respect of deferred and contingent consideration arising on prior year acquisitions, are as follows:

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Cash paid		
Acquisitions in the current year (excluding acquisition related expenses)	19	12
Cash acquired with acquisitions	(5)	(7)
Net cash outflow in the year relating to current year acquisitions	14	5
Cash paid relating to prior year acquisitions	7	5
Net cash outflow in the year relating to acquisitions	21	10
Acquisition related expenses charged to the income statement	3	2
Total cash outflows in the year relating to acquisitions	24	12

(C) Consolidated income statement

If the results of the acquired businesses had been included in these consolidated financial statements from 1 October 2013 until each of their respective acquisition dates, the Group's revenue would have been approximately £35m higher and underlying earnings and profit before tax would have been approximately £1m higher.

Since the respective acquisition dates, the acquired businesses contributed revenues of £48m. Underlying earnings and profit after tax were not materially impacted.

(D) Prior year revisions to fair values

In the year ended 30 September 2013, the Group acquired various businesses for a total consideration of £30m. The finalisation of the acquisition balance sheets for these businesses has not led to a material adjustment to goodwill presented in the 2013 accounts and therefore there is no restatement of the results for the year ended 30 September 2013 or balance sheet as at 30 September 2013 in respect of these finalisations.

14. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	30 September 2014 £m	30 September 2013 £m	30 September 2014 £m	30 September 2013 £m	30 September 2014 £m	30 September 2013 £m
Intangible assets	1	2	(132)	(145)	(131)	(143)
Finance lease transactions	–	–	(2)	(2)	(2)	(2)
Property, plant and equipment	94	86	(27)	(28)	67	58
Financial instruments	19	29	(14)	(13)	5	16
Employee benefits	95	94	(1)	(1)	94	93
Other short-term temporary differences	129	138	(133)	(114)	(4)	24
Tax value of losses carried forward	69	91	–	–	69	91
Total	407	440	(309)	(303)	98	137
Set off of deferred tax within the same jurisdiction	(242)	(272)	242	272	–	–
Net deferred tax assets	165	168	(67)	(31)	98	137

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 2014 £m	30 September 2013 £m
Capital losses	3	3
Other tax losses	292	267
Total losses	295	270

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 £4m which are subject to a four year expiry period and £12m which expire within one year. 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.

Movements in deferred taxation during the current year:

	Balance at 1 October 2013 £m	Arising on acquisition £m	Released on disposal £m	Credited/(charged) to the consolidated income statement £m	Recognised outside of the consolidated income statement £m	Foreign exchange £m	Balance at 30 September 2014 £m
Intangible assets	(143)	(2)	1	10	–	3	(131)
Finance lease transactions	(2)	–	–	–	–	–	(2)
Property, plant and equipment	58	–	–	9	–	–	67
Financial instruments	16	(1)	–	4	(17)	3	5
Employee benefits	93	–	–	(50)	51	–	94
Other short-term temporary differences	24	(1)	–	(35)	23	(15)	(4)
Tax value of losses carried forward	91	–	–	(20)	–	(2)	69
Total	137	(4)	1	(82)	57	(11)	98

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14. Deferred tax assets and liabilities continued

Movements in deferred taxation during the prior year are analysed as follows:

	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 (restated)	105	3	(3)	(14)	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	28	11	(3)	137

Comparative figures for the year ended 30 September 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'.

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 2014 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 2014 £m	30 September 2013 £m
Marine inventories	19	22
Airline spares and operating equipment	23	20
Other operating inventories	14	15
Total	56	57

Included within cost of sales in the year is a write-down of inventories of £nil (2013: £3m) to net realisable value.

16. Trade and other receivables

	30 September 2014			30 September 2013		
	Current assets £m	Non- current assets £m	Total assets £m	Current assets £m	Non- current assets £m	Total assets £m
Trade receivables, gross	538	–	538	497	–	497
Less: provision for impairment	(51)	–	(51)	(49)	–	(49)
	487	–	487	448	–	448
Amounts owed by related parties (Note 31)	56	30	86	55	36	91
Interest bearing other receivables	–	2	2	7	3	10
Other receivables	226	46	272	189	56	245
	769	78	847	699	95	794
Prepayments	523	109	632	632	110	742
Total	1,292	187	1,479	1,331	205	1,536

Other receivables include aircraft related receivables, lease and security deposits, purchase tax 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 2014 £m	30 September 2013 £m
United Kingdom	138	141
Germany	90	101
France	93	82
Other European countries	200	207
Rest of the World	127	91
Total	648	622

Trade receivables are disclosed net of provisions for bad and doubtful debts, an analysis of which is shown below:

	30 September 2014 £m	30 September 2013 £m
Balance at the beginning of the year	49	49
Charge to the consolidated income statement	13	15
Utilisation of provision	(11)	(15)
Total	51	49

The ageing of the financial assets included within trade and other receivables at the balance sheet date was:

	30 September 2014			30 September 2013		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not overdue	515	(11)	504	479	(5)	474
Overdue 1-30 days	71	(1)	70	73	(1)	72
Overdue 31-90 days	44	(1)	43	52	(1)	51
Overdue 91-180 days	20	(5)	15	13	(2)	11
Overdue more than 180 days	49	(33)	16	54	(40)	14
Total	699	(51)	648	671	(49)	622

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.

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 £40m (2013: £44m) relates to gross receivables of £52m (2013: £74m).

There are £132m of receivables that are overdue and not impaired at 30 September 2014 (2013: £118m).

Amounts owed by related parties are disclosed further in Note 31.

17. Cash and cash equivalents

	30 September 2014 £m	30 September 2013 £m
Cash in hand	8	6
Cash at bank	391	920
Deposits	975	827
Cash and cash equivalents	1,374	1,753

At 30 September 2014, cash and cash equivalents have been shown net of specific overdraft balances within the Group's pooling facilities where the Group has demonstrated both the intention and ability to exercise its right to settle these particular balances simultaneously. At 30 September 2013, £491m of cash and cash equivalents within the Group's pooling facilities were shown gross of specific overdraft balances as the Group did not have the intention to settle those particular balances simultaneously at that point in time.

Cash and cash equivalents includes £50m (2013: £47m) that is not available for immediate use by the Group. This is made up of monies held to meet regulatory requirements, together with cash balances on short-term deposits, held on a restricted basis by the Group's captive insurance funds as part of their ongoing operations.

In addition to the above restricted cash balances, the Group is involved in a long-running VAT case with the Belgian government. During the previous financial year a total of €116m was 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, totalling €116m (£90m) as at 30 September 2014, 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 in 2013 of €116m (£98m) 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.

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18. Other investments

	30 September 2014 £m	30 September 2013 £m
Trade investment	–	30
Regulatory deposits with a term exceeding 3 months	16	5
Other deposits with a term exceeding 3 months	2	1
Other investments	18	36

At 30 September 2013, the trade investment of £30m represented the portion of the Group's shareholding in The Airline Group Limited that was disposed of in March 2014 for total consideration of £31m.

19. Assets classified as held for sale

	30 September 2014 £m	30 September 2013 £m
Yachts and motor boats	–	1
Land and buildings	5	5
Other	2	4
Assets classified as held for sale	7	10

Assets held for sale are expected to be sold within 12 months.

20. Interest-bearing loans and borrowings

	30 September 2014 £m	30 September 2013 £m
Current liabilities		
Bank loans and overdrafts	7	528
Finance leases	34	22
Convertible bonds	2	–
Other financial liabilities	46	44
Total	89	594

At 30 September 2014, bank overdrafts have been shown net of specific cash balances within the Group's pooling facilities where the Group has demonstrated both the intention and ability to exercise its right to settle these particular balances simultaneously. At 30 September 2013, £491m of bank overdrafts were shown gross of specific cash balances within the Group's pooling facilities where the Group did not have the intention to settle those particular balances simultaneously at that point in time.

Other financial liabilities mainly comprise the fair value of three put options written by the Group. Two of these options are 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 31 December 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. The third put option is to the sole remaining partner of GeBeCo Gesellschaft für internationale Begegnung und Kooperation mbH & Co. KG, a German registered partnership and is to purchase the remaining non-controlling interest of 49%. This may be exercised at any time until 1 September 2017. 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 2014 £m	30 September 2013 £m
Non-current liabilities		
Bank loans	53	61
Loan notes	1	1
Finance leases	348	253
Convertible bonds	371	697
Other financial liabilities	1	–
Total	774	1,012

The bank loans and loan notes are repayable:

	30 September 2014 £m	30 September 2013 £m
Within one year	7	37
Between one and five years	23	27
After more than five years	31	35
Total	61	99

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. The comparative figures for the maturity analysis of bank loans and loan notes payable after more than one year at 30 September 2013 have been reclassified to better reflect their maturity profile. Further details of debts falling due after more than five years is given in Note(F).

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 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 2014 £m	Principal £m	Interest £m	30 September 2013 £m
In respect of aircraft, boats, cruise ships and equipment payable within:						
One year	34	14	48	22	11	33
One to five years	102	46	148	83	38	121
After five years	246	27	273	170	34	204
Total	382	87	469	275	83	358

Convertible bonds

	30 September 2014 £m	30 September 2013 £m
£350m convertible bond 6.0% October 2014	2	336
£400m convertible bond 4.9% April 2017	371	361
Total	373	697

At 30 September 2014, the Group had two convertible bonds in issue, details of which are as follows:

- A £350m fixed rate 6% bond issued in October 2009. The bond was convertible at the option of the holders, before or upon maturity in October 2014. Conversion into ordinary shares occurred prior to 30 September 2014 in respect of £348m (at par value) of the original bond, the carrying value of which was £347m at the respective dates of conversion. Further details are given in Note 24. The balance of £2m was repaid in full on 5 October 2014.
- A £400m fixed rate 4.9% bond was issued in April 2010. The bond is convertible at the option of the holders, 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 2014. The equity portion of the bonds of £67m (2013: £114m) 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	(47)	(67)	(114)
Interest accretion in prior years	35	33	68
Issue costs amortised in prior years	7	4	11
Carrying amount at 30 September 2013	336	361	697
Interest accretion	11	9	20
Amortisation of issue costs	2	1	3
Conversion	(347)	–	(347)
Carrying amount at 30 September 2014	2	371	373

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21. Current trade and other payables

	30 September 2014 £m	30 September 2013 £m
Trade payables	1,096	931
Deferred and contingent consideration (Note 13(A))	2	4
Other payables	188	177
Amounts owed to related parties (Note 31)	134	97
Other taxes and social security costs	88	87
Accruals and deferred income	1,503	1,709
Client money received in advance	1,847	1,768
Total	4,858	4,773

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 2013	365	45	229	639
Provided in the year	111	14	109	234
Released in the year	(3)	(2)	(19)	(24)
Unwinding of discounted amount (Note 5)	5	–	1	6
Costs incurred	(87)	(25)	(73)	(185)
Foreign exchange	(17)	(3)	(6)	(26)
At 30 September 2014	374	29	241	644
<i>Analysed as:</i>				
Non-current	279	–	81	360
Current	95	29	160	284
	374	29	241	644
At 30 September 2013				
<i>Analysed as:</i>				
Non-current	266	–	96	362
Current	99	45	133	277
	365	45	229	639

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 fully 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 outstanding claims, 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. 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.

The Group has a policy to mitigate the financial risk of claims, 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. At 30 September 2014, amounts totalling £65m (2013: £61m) was provided for by the Group's captive insurance companies and included within other provisions.

Other provisions also includes an amount of £10m (2013: £nil) relating to the constructive obligation at 30 September 2014 for additional funding loans to be paid to Togebi Holdings Limited after the year end and which is included within the £28m impairment of Russian loans, as disclosed in Note 12.

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.

23. Non-current trade and other payables

	30 September 2014 £m	30 September 2013 £m
Deferred and contingent consideration (Note 13(A))	6	8
Other payables	44	37
Amounts owed to related parties (Note 31)	1	1
Accruals and deferred income	44	25
Client money received in advance	9	8
Total	104	79

24. Called up share capital

	30 September 2014 £m	30 September 2013 £m
Fully paid and issued		
1,133,842,328 (2013: 1,118,010,670) ordinary shares of 10p each	114	112
Fully paid but not yet issued		
83,710,258 (2013: nil) ordinary shares of 10p each	8	–
Total	122	112

Following the receipt of irrevocable conversion notices from convertible bond holders during August 2014, 15,831,658 ordinary shares of 10p each were issued in September 2014 for a total consideration of £55m, representing the carrying value of the convertible bond extinguished at the date of conversion. As such, no cash was received on the issuance of these shares. The nominal value of the ordinary shares issued was £2m. £53m was credited to the share premium account on the issuance of these shares.

Following the receipt of irrevocable conversion notices from convertible bond holders in September 2014, 83,710,258 ordinary shares of 10p each were issued between 1 and 7 October 2014 for a total consideration of £292m, representing the carrying value of the convertible bond extinguished. No cash was received on the issuance of these shares. As the date of receipt of conversion notices represents the date of the extinguishment of the convertible bond liability, the 83,710,258 ordinary shares are deemed paid up in accordance with Section 583(2)(3) of Companies Act 2006, notwithstanding the fact that they were issued in October 2014. The nominal value of these ordinary shares of £8m, together with share premium of £284m, has been recognised in called up share capital and the share premium account respectively.

As described more fully in Note 36, the ultimate parent company, TUI AG, is the beneficial owner of 53.72% (2013: 54.48%) of the Company's issued ordinary share capital as at 30 September 2014.

At 30 September 2014, 7,451,101 shares (2013: 8,047,575 shares) were held by the Group's Employee Benefit Trust. Based on the 30 September 2014 closing mid share price of £3.89 (2013: £3.68) the value of shares held was £29m (2013: £30m).

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 in the open market, it has not done so in either the current or prior years.

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25. Capital and reserves

	Note	Called up share capital £m	Convertible bond reserve £m	Other reserves			Accumulated losses £m	Equity holders of parent £m	Non- controlling interests £m	Total equity £m
				Merger reserve £m	Translation reserve £m	Hedging reserve £m				
Balance at 1 October 2012		112	88	2,523	129	(25)	(1,262)	1,565	44	1,609
Profit for the year (restated)		–	–	–	–	–	51	51	3	54
Other comprehensive income/ (loss) for the year										
Foreign exchange translation		–	–	–	56	1	(10)	47	(4)	43
Remeasurements of defined benefit pension schemes (restated)	6(C)	–	–	–	–	–	(11)	(11)	–	(11)
Tax on remeasurement of defined benefit pension schemes (restated)	8(iii)	–	–	–	–	–	(14)	(14)	–	(14)
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 (restated)		–	–	–	56	(58)	(34)	(36)	(4)	(40)
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
Repurchase of own 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

	Note	Called up share capital £m	Share premium account £m	Convertible bond reserve £m	Other reserves				Equity holders of parent £m	Non- controlling interests £m	Total equity £m
					Merger reserve £m	Translation reserve £m	Hedging reserve £m	Accumulated losses £m			
Balance at 1 October 2013		112	–	91	2,523	185	(83)	(1,378)	1,450	41	1,491
Profit for the year		–	–	–	–	–	–	183	183	4	187
Other comprehensive (loss)/ income for the year											
Foreign exchange translation		–	–	–	–	(158)	4	(6)	(160)	1	(159)
Foreign exchange gains recycled through the consolidated income statement		–	–	–	–	(1)	–	–	(1)	–	(1)
Remeasurement of the defined benefit pension scheme	6(C)	–	–	–	–	–	–	(192)	(192)	–	(192)
Tax on remeasurement of the defined benefit pension scheme	8(iii)	–	–	–	–	–	–	45	45	–	45
Cash flow hedges:											
– movement in fair value	26(J)	–	–	–	–	–	(29)	–	(29)	1	(28)
– amounts recycled to the consolidated income statement	26(J)	–	–	–	–	–	113	–	113	–	113
Tax on cash flow hedges	8(iii)	–	–	–	–	–	(17)	–	(17)	–	(17)
Available for sale financial asset:											
– movement in fair value	12	–	–	–	–	–	–	(1)	(1)	–	(1)
– amounts recycled to the consolidated income statement	12	–	–	–	–	–	–	1	1	–	1
Other comprehensive (loss)/income for the year		–	–	–	–	(159)	71	(153)	(241)	2	(239)
Total comprehensive (loss)/income for the year		–	–	–	–	(159)	71	30	(58)	6	(52)
Transactions with owners											
Share-based payment – charge for the year		–	–	–	–	–	–	24	24	–	24
Repurchase of own shares		–	–	–	–	–	–	(33)	(33)	–	(33)
Dividends	9	–	–	–	–	–	–	(150)	(150)	(3)	(153)
Acquisition of non-controlling interest		–	–	–	–	–	–	(4)	(4)	1	(3)
Conversion of convertible bonds (net of deferred tax)	24	10	337	(24)	–	–	–	47	370	–	370
At 30 September 2014		122	337	67	2,523	26	(12)	(1,464)	1,599	45	1,644

Share premium account

Following the receipt of irrevocable conversion notices from convertible bond holders during August and September 2014, 99,541,916 ordinary shares of 10p were issued in September and October 2014 for a total consideration of £347m, representing the carrying value of the convertible bond extinguished at the dates of conversion. No cash was received on the issuance of these shares. The nominal value of the ordinary shares issued was £10m and £337m was recognised in the share premium account on the issuance of these shares.

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. £47m has been transferred from the convertible bond reserve to the profit and loss reserve on the conversion and extinguishment of the equity element of the convertible bond.

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 presentation 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 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).

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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 its counterparty exposure with individual financial institutions throughout the year. 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 presents 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 were used to translate to presentation currency (excluding the impact of hedged transactions) and are illustrative of the rates applied during the current and prior year:

	Average rate		Mid spot rate	
	Year ended 30 September 2014	Year ended 30 September 2013	30 September 2014	30 September 2013
£1 GBP equivalent				
US Dollar	1.657	1.561	1.619	1.615
Euro	1.221	1.190	1.287	1.196
Swedish Krona	10.990	10.225	11.767	10.355

As at 30 September 2014, the Group has hedged forecast transactions for \$4.0bn (2013: \$4.3bn) and €1.5bn (2013: €1.3bn) for periods up until Winter 2015 principally relating to Winter 2014 and Summer 2015.

(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 2014, the Group has hedged transactions for fuel of 1.7m metric tonnes (2013: 1.7m metric tonnes) for periods up until Winter 2015.

Details of fuel forward derivative instruments are set out in Note 26(l).

(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 2014 was the €116m (2014: £90m, 2013: £98m) received from the Belgian government in relation to the long running VAT case (Note 17). This money is currently deposited with two (2013: one) financial institutions 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 receivable 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 2014 £m	Carrying value 30 September 2013 £m
Trade and other receivables (Note 16)	648	622
Cash and cash equivalents (Note 17)	1,374	1,753
Derivatives – contracts used for hedging (Note 26(l))	160	44
Trade and listed investments (Note 12)	21	23
Other investments (Note 18)	18	36
Total	2,221	2,478

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 £51m (2013: £49m).

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 2014, approximately 20% (2013: 42%) of the Group's unrestricted cash and cash equivalents was invested with counterparties based in the United Kingdom, and 63% (2013: 38%) was 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 2014, prepaid accommodation which is recoverable after more than one year was £102m (2013: £108m).

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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 fixed/floating rate aircraft and cruise ship leases and floating rate bank loans and cash balances.

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	Range of years of maturity	Carrying amount 30 September 2014 £m	Carrying amount 30 September 2013 £m
Convertible bonds (Note 20)	Sterling	4.9% – 6.0%	2014 – 2017	373	697
Secured bank loans	Sterling	1.2% – 3.7%	2014 – 2018	6	19
	EUR	1.8%	2014 – 2027	15	16
	USD	3.0%	2014 – 2024	38	60
Unsecured bank loans	EUR	1.1% – 6.8%	2014 – 2015	1	3
				60	98
Finance leases	EUR	1.3 – 8.4%	2014 – 2046	64	74
	USD	1.5% – 5.5%	2014 – 2024	317	198
	MAD	5.9% – 6.5%	2014 – 2017	1	2
	AUD	7.2% – 11.8%	2014 – 2015	–	1
				382	275
Loan notes	USD	6.5%	2016	1	1
Other financial liabilities	EUR	0% – 5.0%	2014 – 2019	47	44
Bank overdrafts	EUR	0.5%	2014	–	491
Total interest-bearing liabilities				863	1,606
<i>Analysed between:</i>					
Fixed rate instruments				838	1,057
Variable rate instruments				25	549
				863	1,606

The interest rate applicable to bank overdrafts in 2013 was the amount charged in respect of the balance shown. Any balances offsetting this in the Group's pooling arrangements were 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 2014, principally comprised the following main sources of long-term debt funding:

- The external bank revolving credit facilities totalling £1,225m (2013: £1,120m) plus bonding and letter of credit facilities totalling £175m (2013: £185m) which all mature in June 2018. From these facilities, £120m has been utilised for letter of credit purposes at 30 September 2014 (2013: £136m);
- A £400m convertible bond (due April 2017) issued in April 2010; and
- A £150m bank syndicated facility which matures in April 2016 and which is only available in the event of a requirement to redeem the Group's 2017 convertible bond.

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. This is the case in the scenario that the merger with TUI AG does not proceed, which is considered unlikely, and the scenario once the merger is completed, as TUI AG has agreed to provide facilities to enable, based on current expectations, TUI Travel PLC and its subsidiaries to continue for the foreseeable future.

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 2014	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	373	460	20	20	420	–
Secured bank loans	59	71	7	12	17	35
Unsecured bank loans	1	1	1	–	–	–
Finance leases	382	469	48	40	108	273
Loan notes	1	1	–	1	–	–
Other financial liabilities	47	47	46	1	–	–
Trade and other payables	2,710	2,710	2,678	30	2	–
Derivative financial liabilities						
Contracts used for hedging	201	207	189	17	1	–
Total	3,774	3,966	2,989	121	548	308

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

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.

Debts falling due for repayment after five years with an aggregate value at 30 September 2014 of £405m (2013: £297m) comprise secured bank loans of £53m (2013: £57m) and finance leases of £352m (2013: £240m), all of which are payable in either monthly, quarterly or six-monthly instalments. These are secured on the aircraft, cruise ships and buildings to which the borrowings relate.

At 30 September 2014, the Group had available undrawn committed borrowing facilities of £1,301m (2013: £1,192m), 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 2014 £m	30 September 2013 £m
Expiring:		
In more than one year but less than five years	1,301	1,192

(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 2014	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	–	–	–	1,374	–	1,374
Borrowings due within one year	(43)	–	–	–	(46)	(89)
Borrowings due after more than one year	–	–	–	–	(774)	(774)
Derivative assets	17	143	–	–	–	160
Derivative liabilities	(42)	(159)	–	–	–	(201)
Other financial assets	5	–	16	666	–	687
Other financial liabilities	(4)	–	–	–	(2,706)	(2,710)
Total	(67)	(16)	16	2,040	(3,526)	(1,553)

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26. Financial instruments continued

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)

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.

Further information in relation to changes in other financial assets at fair value through profit and loss are shown in Note 12.

Offsetting

The table below shows the Group's financial assets and liabilities that are subject to offset in the Group's balance sheet and the impact of enforceable master netting or similar agreements. Contracts for derivative financial instruments are governed by standardised master netting agreements creating a right of set-off only if certain specified future events occur. As this conditional right to set-off is not enforceable in the ordinary course of business, the derivative financial assets and liabilities are shown on a gross basis in the consolidated balance sheet at the reporting dates.

	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of recognised financial (liabilities)/ assets set off £m	Net amounts of financial assets/ (liabilities) presented in the balance sheet £m	Related amounts not set off in the balance sheet £m	Net amount £m
Financial assets as at 30 September 2014					
Derivative financial assets	160	–	160	(125)	35
Trade receivables	648	–	648	–	648
Trade and listed investments	21	–	21	–	21
Cash and cash equivalents	4,155	(2,781)	1,374	–	1,374
Other investments	18	–	18	–	18
Total	5,002	(2,781)	2,221	(125)	2,096
Financial liabilities as at 30 September 2014					
Derivative financial liabilities	(201)	–	(201)	125	(76)
Interest bearing loans and borrowings	(3,597)	2,781	(816)	–	(816)
Other financial liabilities	(47)	–	(47)	–	(47)
Trade and other payables	(2,710)	–	(2,710)	–	(2,710)
Total	(6,555)	2,781	(3,774)	125	(3,649)
Net	(1,553)	–	(1,553)	–	(1,553)

	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of recognised financial (liabilities)/ assets set off £m	Net amounts of financial assets/ (liabilities) presented in the balance sheet £m	Related amounts not set off in the balance sheet £m	Net amount £m
Financial assets as at 30 September 2013					
Derivative financial assets	44	–	44	(44)	–
Trade receivables	622	–	622	–	622
Trade and listed investments	23	–	23	–	23
Cash and cash equivalents	4,077	(2,324)	1,753	–	1,753
Other investments	36	–	36	–	36
Total	4,802	(2,324)	2,478	(44)	2,434
Financial liabilities as at 30 September 2013					
Derivative financial liabilities	(173)	–	(173)	44	(129)
Interest bearing loans and borrowings	(3,886)	2,324	(1,562)	–	(1,562)
Other financial liabilities	(44)	–	(44)	–	(44)
Trade and other payables	(2,733)	–	(2,733)	–	(2,733)
Total	(6,836)	2,324	(4,512)	44	(4,468)
Net	(2,034)	–	(2,034)	–	(2,034)

Cash and cash equivalents and bank overdrafts include amounts set off of £2,781m (2013: £2,324m) as part of a master netting agreement with Citibank International Limited. Balances held within this balance are notionally pooled.

(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 2014 and at 30 September 2013, are as follows:

	30 September 2014		30 September 2013	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Cash and cash equivalents	1,374	1,374	1,753	1,753
Borrowings				
Convertible bonds	(373)	(476)	(697)	(883)
Bank loans and overdrafts	(60)	(60)	(589)	(589)
Loan notes	(1)	(1)	(1)	(1)
Finance lease liabilities	(382)	(381)	(275)	(280)
Other financial liabilities	(47)	(47)	(44)	(44)
Derivative financial instruments				
Forward exchange contracts used for hedging				
– assets	159	159	36	36
– liabilities	(137)	(137)	(148)	(148)
Commodity contracts used for hedging				
– assets	1	1	8	8
– liabilities	(63)	(63)	(25)	(25)
Interest rate swap used for hedging				
– liability	(1)	(1)	–	–
Other financial assets				
Trade and other receivables	648	648	622	622
Trade and listed investments	21	21	23	23
Other investments	18	18	36	36
Other financial liabilities				
Current trade and other payables	(2,678)	(2,678)	(2,687)	(2,687)
Non-current trade and other payables	(32)	(32)	(46)	(46)
Total	(1,553)	(1,655)	(2,034)	(2,225)

The basis for fair value measurement of financial assets and liabilities is set out in Note 1(W).

Fair value measurements

IFRS 13 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.

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26. Financial instruments continued

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.

The Group's financial assets and liabilities, excluding convertible bonds and finance lease liabilities, measured at fair value at 30 September 2014 are categorised as follows:

At 30 September 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total Fair value £m
Assets				
Trade, listed and other investments	10	–	11	21
Derivative financial instruments	–	160	–	160
Total assets	10	160	11	181
Liabilities				
Derivative financial instruments	–	(201)	–	(201)
Other financial liabilities	–	–	(50)	(50)
Total liabilities	–	(201)	(50)	(251)
Total	10	(41)	(39)	(70)

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)

The movements in level 3 instruments, measured on a recurring basis, for the year ended 30 September 2014 are as follows:

	Trade and other investments £m	Other financial liabilities £m	Total level 3 instruments £m
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 1 October 2013	42	(48)	(6)
Cash settlement of contingent consideration	–	3	3
Sale of trade investment	(30)	–	(30)
Recognised in income statement	(1)	(5)	(6)
At 30 September 2014	11	(50)	(39)

Trade and listed investments

As at 30 September 2014, £11m (2013: £42m) of trade and other investments were categorised as level 3 instruments. These consist of the Group's £5m (2013: £35m) investment in The Airline Group Limited and other trade investments in the equity of unlisted companies of £6m (2013: £7m). In the year ended 30 September 2013, of the £35m in respect of The Airline Group Limited, £30m was disclosed as an other investment in current assets (Note 18) and £5m was 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 disposal of which occurred in March 2014. 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 level 2 inputs, 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) (2013: £38m) is 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 £4m (2013: £7m) is also measured at fair value based on the relevant contracts.

A new put option recognised in the year is to the sole remaining partner of GeBeCo Gesellschaft für internationale Begegnung und Kooperation mbH & Co. KG, a German registered partnership (£5m) (2013: £nil). This has been valued using the price stipulated in the contract, based upon the two years' profit before tax, plus a portion of retained earnings, preceding any exercise of the option.

There are no reasonably possible changes in assumptions which would materially alter the value of these level 3 financial instruments.

Convertible bonds

The fair value of the convertible bonds for disclosure purposes was £476m (2013: £883m) and is derived from quoted market prices from Bloomberg. As such, the convertible bonds are categorised as level 1 financial instruments.

Finance leases

The fair value of finance leases for disclosure purposes was £381m (2013: £280m) and 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. This market rate of interest for finance leases is determined by reference to similar lease agreements. These finance leases are categorised as level 3 financial instruments.

Transfers between levels of financial instruments

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

(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 2014			30 September 2013		
	Assets Fair value £m	Liabilities Fair value £m	Total Fair value £m	Assets Fair value £m	Liabilities Fair value £m	Total Fair value £m
Cash flow hedges						
Foreign exchange forwards	142	(96)	46	34	(122)	(88)
Commodity options	–	–	–	–	(1)	(1)
Commodity swaps	1	(63)	(62)	8	(24)	(16)
	143	(159)	(16)	42	(147)	(105)
Derivatives not hedge accounted						
Interest rate swap	–	(1)	(1)	–	–	–
Foreign exchange forwards	17	(41)	(24)	2	(26)	(24)
Total	160	(201)	(41)	44	(173)	(129)
<i>Analysed as:</i>						
Current	130	(186)	(56)	41	(147)	(106)
Non-current	30	(15)	15	3	(26)	(23)
Total	160	(201)	(41)	44	(173)	(129)

Gains/losses on derivatives not hedge accounted have been recognised within net financial expenses within the consolidated income statement. The gain recognised in the year ended 30 September 2014 of £73m (2013: loss of £114m) has been offset by an equal and opposite loss (2013: gain) due to the revaluation of non-functional currency balance sheet exposures.

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 2014 and have been shown net for each instrument.

30 September 2014	Projected cash flows			
	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	126	29	2	–
	126	29	2	–
Derivative financial liabilities				
Foreign exchange forwards	(136)	(3)	–	–
Commodity swaps	(53)	(14)	(1)	–
	(189)	(17)	(1)	–
Total	(63)	12	1	–

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26. Financial instruments continued

30 September 2013	Projected cash flows			
	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	—

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 2014 comprised a charge of £1m (2013: £3m) 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 gain of £1m (2013: £1m) which is included in cost of sales in the consolidated income statement.

(J) Amounts recognised in equity

The following amounts have been recognised in equity during the year:

	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Hedging reserve		
Effective portion of changes in fair value of cash flow hedging instruments	(28)	(76)
Fair value of cash flow hedges recycled to the consolidated income statement	113	(5)
	85	(81)

The fair value loss of £113m on cash flow hedges recycled to the consolidated income statement during 2014 arose primarily due to Sterling strengthening against the Euro and the US dollar, as well as the Euro strengthening against the US dollar, when comparing the average achieved hedge rate and the average spot rate at maturity of the derivative contracts. This spread was larger in 2014 compared to 2013. The fair value gain of £5m on cash flow hedges recycled to the consolidated income statement during 2013 arose primarily due to Sterling weakening against the Euro and the US dollar, when comparing the average achieved hedge rate and the average spot rate at maturity of the derivative contracts.

Deferred tax on the above items recognised outside of the consolidated income statement is shown in Note 8(iii). The fair value of cash flow hedges recycled to the consolidated income statement is recognised within cost of sales.

(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 (2013: increase of less than £1m). 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 £5m (2013: £21m) or increased it by £5m (2013: £21m) respectively.

Similarly, under the above assumptions, a 10% strengthening or weakening of Sterling against all principal exchange rates the Group is exposed to would have reduced profit before tax by £20m (2013: reduced profit before tax by £16m) or increased it by £25m (2013: increased profit before tax by £18m) respectively. Equity (before tax) would have decreased by £210m (2013: £226m) or increased by £257m (2013: £276m) 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 £88m (2013: £97m), or decrease by £88m (2013: £96m) 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 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
Cash movement	198	—	—	36	—	23	(4)	253	(2)	251
Non-cash movement	(491)	324	—	491	—	(132)	(2)	190	—	190
Foreign exchange	(86)	—	—	2	—	2	3	(79)	7	(72)
At 30 September 2014	1,374	(373)	—	(60)	(1)	(382)	(47)	511	(140)	371

As set out in Note 17, cash and cash equivalents included £140m (2013: £145m) of restricted cash.

The 2014 non-cash movement of £324m (2013: £(22)m) in convertible bonds relates to the net amount of the conversion of £348m (at par value) of the 2014 £350m bond (issued October 2009) converting during the year and accretion of the equity portion of the convertible bonds up to the earlier of the conversion or 30 September 2014.

The 2014 non-cash movement of £(491)m (2013: £491m) between cash and cash equivalents and bank loans and overdrafts reflects the impact of specific overdraft balances being presented on a net basis, previously shown gross. Other non-cash movements in 2014 in finance leases predominantly relate to advances in respect of additions to aircraft within 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 2014 £m	Year ended 30 September 2013 (restated) £m
Underlying operating profit	Consolidated income statement	612	589
Net financial expense	5	(137)	(128)
Underlying profit before tax		475	461
Movement in available cash net of debt	27(A)	251	267
Add:			
Dividends paid to ordinary and non-controlling interests	Consolidated statement of cash flows	153	132
Acquisition of subsidiaries net of cash acquired	Consolidated statement of cash flows	21	10
Investment in joint ventures, associates and other investments		27	14
Net pre-delivery payments for aircraft	11	(18)	4
Proceeds from other investments	Consolidated statement of cash flows	(31)	—
Free cash flow		403	427
Cash conversion		85%	93%

The figures for 2013 have been restated following the adoption of IAS 19 (revised).

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28. Operating lease commitments

Total Group obligations under non-cancellable operating lease contracts are payable as follows:

	Land and buildings 30 September 2014 £m	Aircraft, ships, yachts and equipment 30 September 2014 £m	Land and buildings 30 September 2013 £m	Aircraft, ships, yachts and equipment 30 September 2013 £m
Total commitments under non-cancellable operating leases falling due:				
Within one year	258	367	265	383
Between one and five years	584	974	527	770
Later than five years	222	454	226	427
Total	1,064	1,795	1,018	1,580

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 2014 was £61m (2013: £80m) and is included within the table above.

In total the Group operates 119 aircraft on operating leases at 30 September 2014 (2013: 123 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 2014 £m	30 September 2013 £m
Contracted but not provided for:		
Intangible assets	6	3
Total	6	3

In addition to the above items, at the year end the Group had contracted to purchase 72 (2013: 79) aircraft with initial deliveries to start in the first quarter of the financial year 2014/15. At list price, the total order value was US\$9,135m (2013: US\$9,772m) 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 2014 was £28m (2013: £13m).

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 2016 at the latest. The latest repurchase date was extended from July 2014 to July 2016 through a new contractual arrangement dated 10 October 2013.

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 2014 were £3m (2013: £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 €10m in the financial year ending 30 September 2013, €12m in the financial year ending 30 September 2014 and will 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 2014 £m	Year ended 30 September 2013 £m	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Related party				
Ultimate parent TUI AG	4	8	4	4
Hotel and resort subsidiaries of TUI AG	1	1	312	289
Other subsidiaries of TUI AG	15	13	10	9
Joint ventures and associates of TUI AG	18	10	125	85
Joint ventures of the Group	15	41	151	132
Associates of the Group	21	15	17	14
Total	74	88	619	533

Income earned from TUI AG includes recharges of administrative costs of £4m (2013: £4m). The prior year also included airline revenue of £4m.

Income earned from hotel 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 £13m (2013: £32m) 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 (2013: £1m). The remaining expenses paid to TUI AG of £3m (2013: £3m) relates to aircraft lease costs and licence fees.

In addition to the amounts disclosed above, £10m (2013: £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 hotel 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 2014			30 September 2013		
	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	3	–	3	2	–	2
Subsidiaries of TUI AG	–	–	–	1	–	1
Joint ventures and associates of TUI AG	3	–	3	6	1	7
Joint ventures of the Group	42	30	72	43	35	78
Associates of the Group	8	–	8	3	–	3
Total	56	30	86	55	36	91

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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 (2013: £3m) 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 £30m (2013: £35m) principally comprises hotel prepayments made to the Atlantica Leisure Group of companies. In the prior year the balance also included a loan of US\$12m, equating to £8m from TUI Travel Holdings Limited, a direct subsidiary of the Company, to Togebi Holdings Limited. This loan has been provided for within the £28m (2013: £nil) impairment recognised against loans made to our joint venture operating in the Russian and Ukrainian source markets, given the ongoing challenging trading conditions in that environment (also refer to Note 12).

Amounts owed by joint ventures that are due within one year of £42m (2013: £43m) include accommodation costs due from Togebi Holdings Limited and its subsidiaries of £17m (2013: £15m), 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 2014			30 September 2013		
	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	6	–	6	7	–	7
Hotel and resort subsidiaries of TUI AG	52	1	53	48	–	48
Joint ventures and associates of TUI AG	26	–	26	11	–	11
Joint ventures of the Group	49	–	49	26	1	27
Associates of the Group	11	–	11	5	–	5
Total	144	1	145	97	1	98

Payables outstanding with related parties are reported in Notes 21 and 23. An analysis of current amounts owed to related parties is as follows:

	30 September 2014 £m	30 September 2013 £m
Amounts owed to related parties (Note 21)	134	97
Current provisions (Notes 12 and 22)	10	–
Total current liabilities owed to related parties	144	97

Amounts payable to hotel and resort subsidiaries 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. The payables to joint ventures of the Group also includes £10m (2013: £nil) relating to the constructive obligation at 30 September 2014 for additional funding loans to be paid to Togebi Holdings Limited. Further details of these amounts, which were loaned after the year end, are disclosed in Note 12 and are included within the current other provision balance in Note 22.

The Group's share of bank guarantees given by the Company for bank loans drawn by Togebi Holdings Limited and its subsidiaries totalled £12m at 30 September 2014 (2013: £12m). No payable has been recognised at 30 September 2014 (2013: £nil) as no cash outflow is currently expected under the terms of these guarantees.

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 2016 at the latest. Further details of the convertible bonds are given in Note 20.

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 2014 £m	Year ended 30 September 2013 £m
Short-term employee benefits	11	9
Post-employment benefits	1	1
Share-based payments	11	10
Total	23	20

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 2014.

Subsidiary	Country of incorporation	Nature of business
Mainstream Sector		
Mainstream – UK & Ireland		
Falcon Leisure Group (Overseas) Limited	United Kingdom	Tour operator
Thomson Airways Limited	United Kingdom	Airline
TUI UK Limited	United Kingdom	Tour operator
TUI UK Retail Limited	United Kingdom	Travel agent
Mainstream – Germany		
Berge & Meer Touristik GmbH	Germany	Tour operator
GeBeCo Gesellschaft für internationale Begegnung und Kooperation mbH & Co. KG	Germany	Tour operator
L'TUR Tourismus AG (70%)	Germany	Tour operator
TUI Deutschland GmbH	Germany	Tour operator
TUI 4 U GmbH	Germany	Tour operator
TUIfly Vermarktungs GmbH	Germany	Tour operator
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 AS	Turkey	Hotel operator
TUI (Suisse) AG	Switzerland	Tour operator
TUI Airlines Belgium NV	Belgium	Airline
TUI Airlines Nederland B.V.	Netherlands	Airline
TUI Austria Holding GmbH	Austria	Tour operator
TUI Aviation GmbH	Germany	Leasing company
TUI Österreich GmbH	Austria	Tour operator
TUI Nederland N.V.	Netherlands	Tour operator
TUI Poland Sp. z o.o.	Poland	Tour operator
TUI Travel Aviation Finance Limited	United Kingdom	Leasing company
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 S.A. (99%)	Dominican Republic	Inbound services
Club Turavia SA de CV	Mexico	Accommodation wholesaler
Hotelbeds Dominicana S.A.	Dominican Republic	Accommodation wholesaler
Hotelbeds Product, SLU	Spain	Accommodation wholesaler
Hotelbeds, S.L.U.	Spain	Accommodation wholesaler
Hotelbeds Spain, SLU	Spain	Accommodation wholesaler
Hotelbeds UK Limited	United Kingdom	Accommodation wholesaler
Hotelbeds USA, Inc.	USA	Accommodation wholesaler
Intercoastal Shoreside & Port Services, Inc.	USA	Inbound services
Intercoastal 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
Tantur Turizm Seyahat AS	Turkey	Tour operator
TUI Hellas Travel Tourism and Airline 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 S.A.	Spain	Inbound services

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32. Principal operating subsidiaries continued

Subsidiary	Country	Nature of business
Specialist & Activity Sector		
Crown Travel Limited	United Kingdom	Tour operator
Experience English Limited	United Kingdom	Language teaching
Exodus Travels Limited (60%)	United Kingdom	Tour operator
Fanfirm Pty Limited*	Australia	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
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 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. Comparative figures for the year ended 30 September 2013 have been restated to reflect the adoption of revised IAS 19 'Employee benefits'. Further details are provided in Note 1.

Basic and diluted earnings per share are as follows:

	Earnings 2014 £m	Weighted average no. of shares 2014 Millions	Earnings per share 2014 Pence	Earnings 2013 (restated) £m	Weighted average no. of shares 2013 Millions	Earnings per share 2013 (restated) Pence
Basic earnings per share	183	1,114	16.4	51	1,110	4.6
Effect of dilutive options	–	8	–	–	8	–
Diluted earnings per share	183	1,122	16.3	51	1,118	4.6

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 2014 £m	Weighted average no. of shares 2014 Millions	Earnings per share 2014 Pence	Earnings 2013 (restated) £m	Weighted average no. of shares 2013 Millions	Earnings per share 2013 (restated) Pence
Basic earnings per share	183	1,114	16.4	51	1,110	4.6
Acquisition related expenses and impairments	96	–		253	–	
Separately disclosed items	(1)	–		24	–	
Interest and tax on joint ventures & associates	18	–		15	–	
Separately disclosed tax item	26	–		–	–	
Tax base difference	2	–		(9)	–	
Basic underlying earnings per share	324	1,114	29.1	334	1,110	30.1
Effect of dilutive options	–	8		–	8	
Effect of convertible bond (net of tax)	43	201		49	205	
Diluted underlying earnings per share	367	1,323	27.7	383	1,323	28.9

As disclosed in Note 8(i), following a review of the Group's deferred tax balances in the year, the Directors have written off £26m of deferred tax assets where there is no longer sufficient certainty of the timing of any benefits that might arise in the future. These charges have been treated as separately disclosed tax items and have been excluded from the underlying earnings per share calculations.

The tax base difference represents the remaining difference between the actual tax charge in the consolidated income statement (£175m) and the Group's underlying tax charge (£147m), as disclosed below, after taking account of the separately disclosed tax item.

The dilutive effect of the convertible bonds is included solely to calculate diluted underlying earnings per share.

Reconciliation of profit for the year attributable to ordinary shareholders

	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Profit attributable to ordinary shareholders	183	51
Result attributable to non-controlling interests	4	3
Profit for the year	187	54

Non-GAAP measure

Reconciliation of underlying operating profit to underlying earnings

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 (restated) £m
Underlying operating profit		612	589
Net underlying financial expenses	5	(137)	(128)
Underlying profit before tax		475	461
Underlying tax charge at 31% (2013: 27%)		(147)	(124)
Underlying profit for the year		328	337
Attributable to ordinary shareholders		324	334
Attributable to non-controlling interests		4	3
Underlying profit for the year		328	337

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 of 7.5% (2013: 8.1%). This objective has been achieved again this year with a ROIC of 14.6% (2013: 14.8%).

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).

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continued

34. Capital management continued

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:

	Note	Year ended 30 September 2014 £m	Year ended 30 September 2013 £m
Return on invested capital			
Underlying operating profit	Consolidated income statement	612	589
Taxation at the underlying effective rate of 31% (2013: 27%)		(190)	(159)
Underlying NOPAT		422	430
Net assets	Consolidated balance sheet	1,644	1,491
Seasonal net debt adjustment		223	320
Cumulative goodwill impairment charge		378	378
Defined benefit pension net deficit	6(C)	699	661
Invested Capital		2,944	2,850
Average Invested Capital		2,897	2,903
ROIC		14.6%	14.8%

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 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 2014. None of these requirements place any significant restriction on the Group's funding or operations.

35. Post balance sheet events

On 15 September 2014, the Independent Directors of the Company and the Executive Board (Vorstand) of TUI AG announced that they had reached agreement on the terms of a recommended all-share nil-premium merger of the Company and TUI AG (the "Merger"), to be implemented by way of a scheme of arrangement of the Company under Part 26 of the Companies Act 2006 (the "Scheme"). The scheme document in connection with the Scheme, containing the notice of the Court Meeting and Notice of General Meeting, was published on 2 October 2014 (the "Scheme Document"). The Scheme Document contained a profit estimate for the year ended 30 September 2014 for the purposes of Rule 28 of the UK Code for Takeovers and Mergers, which was stated as being full year underlying operating profit growth of at least 9% on a constant currency basis. The actual results for the year ended 30 September 2014 are consistent with this profit estimate, as full year operating profit growth has been 11% on a constant currency basis.

At the Court Meeting of the Scheme Shareholders and the General Meeting of the TUI Travel Shareholders, both held on 28 October 2014, the resolutions contained in the notice of the Court Meeting and Notice of General Meeting were duly passed by the requisite majorities. It is expected that the Court Hearing to sanction the Scheme will be held on 10 December 2014 and that the Scheme will be effective on 11 December 2014 (as set out in the Scheme Document).

36. Ultimate parent company

The Directors consider the ultimate parent company to be TUI AG, a company registered in Berlin and Hanover (Federal Republic of Germany). At 30 September 2014, TUI AG was the beneficial owner of 53.72% (2013: 54.48%) of the issued 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 2014.

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.

Independent Auditors' report to the members of TUI Travel PLC

Report on the Parent Company financial statements

Our opinion

In our opinion, TUI Travel PLC's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 30 September 2014;
- 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.

What we have audited

TUI Travel PLC's financial statements comprise:

- Company balance sheet as at 30 September 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures 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.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('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 financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. 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, the Directors are responsible for the preparation of the 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 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in 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.

Other matter

We have reported separately on the Group financial statements of TUI Travel PLC for the year ended 30 September 2014.

Roger de Peyrecave (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
 Chartered Accountants and Statutory Auditors
 London
 3 December 2014

FINANCIAL STATEMENTS

Company balance sheet

At 30 September 2014

	Note	30 September 2014 £m	30 September 2013 £m
Fixed assets			
Investments	D	1,343	1,261
Current assets			
Debtors: amounts falling due after more than one year	E	43	44
Debtors: amounts falling due within one year	F	151	183
Cash at bank		397	257
		591	484
Creditors: amounts falling due within one year	G	(95)	(129)
Net current assets		496	355
Total assets less current liabilities		1,839	1,616
Creditors: amounts falling due after more than one year	H	(645)	(973)
Provision for liabilities	I	–	(5)
Net assets		1,194	638
Capital and reserves			
Called up share capital	K	122	112
Share premium account	L	337	–
Profit and loss account	L	648	406
Convertible bond reserve	L	67	91
Other reserves	L	20	29
Total shareholders' funds	L	1,194	638

The financial statements on pages 180 to 185 were approved by a duly authorised Committee of the Board of Directors on 3 December 2014 and were signed on its behalf by:

Peter J Long

Chief Executive

Company number: 6072876

The notes on pages 181 to 185 form part of these financial statements.

William H Waggott

Chief Financial Officer

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 presentation 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. 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 and the exemption from the requirement to prepare a cash flow statement under FRS1 (revised 1996) on the grounds that the cash flows are included within the consolidated cash flow statement. The profit after tax included in the financial statements of the Company, determined in accordance with the Act, was £345m (2013: £270m).

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.

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.

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. Derecognition occurs on the date on which an irrevocable conversion notice to convert the bond to ordinary shares is received from the bond holder. The carrying value of the bond at the date of derecognition is extinguished and replaced by the nominal value of the ordinary share capital being issued with the balance being recognised in the share premium account, notwithstanding that the relevant ordinary shares may not have been legally issued on the date of derecognition. No gains or losses are recognised in the consolidated income statement on conversion.

Share capital and share premium

Ordinary shares are classified as equity within shareholders' funds. On derecognition of convertible bonds, the carrying value of the bond is extinguished and replaced by the nominal value of the ordinary share capital being issued with the balance being recognised in the share premium account, notwithstanding that the relevant ordinary shares may not have been legally issued on the date of derecognition. No profits or losses are recognised in the profit and loss account on conversion.

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 tax inclusive credit being recognised directly in equity. Further information on the share schemes is provided in Note 6(D) to the consolidated financial statements.

FINANCIAL STATEMENTS

Notes to the Company's financial statements
continued**Accounting policies continued**

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.

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 2014 audit fee was £27,000 (2013: £26,000).

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 2013	1,729
Additions	268
Disposals	(17)
At 30 September 2014	1,980
Provision for impairment	
At 1 October 2013	(468)
Impairment	(169)
At 30 September 2014	(637)
Net book value	
At 30 September 2013	1,261
At 30 September 2014	1,343

Additions in the year of £268m includes the following increases in investments: £204m increase in the cost of investment into TUI France SAS during the year for the purposes of recapitalising the Group's French business, £24m increase in the cost of investment into TUI Travel Overseas Holdings Limited for the purposes of providing capital to that company's subsidiaries and indirect joint ventures, £21m increase in the cost of investment in TUI Travel Holdings Limited for the purpose of effecting an intra-group entity reorganisation and £19m 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 2014 can be found in Note 32 of the consolidated financial statements.

Included within the total impairment charge of £169m is an £8m impairment in Sportsworld Holdings Limited to reduce the net book value of the investment to its recoverable value of £nil. As part of effecting an intra-group reorganisation, it is planned for Sportsworld Holdings Limited to be liquidated in due course. An impairment of £161m (2013: £133m) 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 1.80% (2013: 1.75%);
- 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 9% (2013: 10%).

The Directors believe the carrying value of all investments is supportable.

E. Debtors: amounts falling due after more than one year

	30 September 2014 £m	30 September 2013 £m
Amounts owed by Group undertakings	43	44

Amounts owed by Group undertakings are unsecured, bear no interest and are due for repayment on 22 May 2018.

F. Debtors: amounts falling due within one year

	30 September 2014 £m	30 September 2013 £m
Amounts owed by Group undertakings	59	58
Group relief receivable	57	118
Prepayments	12	7
Deferred tax asset (Note J)	23	–
Total	151	183

Amounts owed by Group undertakings

Amounts owed by Group undertakings at 30 September 2014 are unsecured and comprise £6m (2013: £8m) that bears interest at Lloyds Bank five year swap rate plus a margin of 2.25% and has no fixed date of repayment and £53m (2013: £50m) that bears no interest and is repayable on demand.

G. Creditors: amounts falling due within one year

	30 September 2014 £m	30 September 2013 £m
Convertible bonds	2	–
Bank loans	2	2
Amounts owed to Group undertakings	82	109
Accruals and deferred income	9	18
Total	95	129

Details of the convertible bond falling due within one year are given in Note 20 of the consolidated financial statements. The accounting for these convertible bonds is the same under UK GAAP and IFRS.

Amounts owed to Group undertakings

Amounts owed to Group undertakings include £28m (2013: £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. Amounts owed to Group undertakings also includes £39m (2013: £nil) in respect of a recapitalisation of TUI France SAS which occurred after the year end, for which the Company had a constructive obligation to fund at 30 September 2014. 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 2014 £m	30 September 2013 £m
Convertible bonds	371	697
Bank loans	4	6
Amounts owed to Group undertakings	270	270
Total	645	973

Details of the convertible bonds are given in Note 20 of the consolidated financial statements. The accounting for these convertible bonds is the same under UK GAAP and IFRS. Amounts owed to Group undertakings comprise a loan of £269m (2013: £269m) and interest payable of £1m (2013: £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

	30 September 2014 £m	30 September 2013 £m
Deferred tax (Note J)	–	5
Other timing differences	–	5
Total provision for liabilities	–	5

FINANCIAL STATEMENTS

Notes to the Company's financial statements
continued

J. Deferred tax

Deferred tax (liability)/asset	£m
At 1 October 2013	(5)
Deferred tax charge to profit and loss account	1
Deferred tax charge to equity	27
At 30 September 2014	23

The deferred tax asset comprises deferred tax on share-based payments and other employee benefits.

K. Called up share capital

	30 September 2014 £m	30 September 2013 £m
Issued and fully paid		
1,133,842,328 (2013: 1,118,010,670) ordinary shares of 10p each	114	112
Fully paid but not yet issued		
83,710,258 (2013: nil) ordinary shares of 10p each	8	—
Total		
1,217,552,586 (2013: 1,118,010,670) ordinary shares of 10p each	122	112

Following the receipt of irrevocable conversion notices from convertible bond holders during August 2014, 15,831,658 ordinary shares of 10p each were issued in September 2014 for a total consideration of £55m, representing the carrying value of the convertible bond extinguished at the date of conversion. As such, no cash was received on the issuance of these shares. The nominal value of the ordinary shares issued was £2m. £53m was credited to the share premium account on the issuance of these shares.

Following the receipt of irrevocable conversion notices from convertible bond holders in September 2014, 83,710,258 ordinary shares of 10p each were issued between 1 and 7 October 2014 for a total consideration of £292m, representing the carrying value of the convertible bond extinguished. No cash was received on the issuance of these shares. As the date of receipt of conversion notices represents the date of the extinguishment of the convertible bond liability, the 83,710,258 ordinary shares are deemed paid up in accordance with Section 583(2)(3) of Companies Act 2006, notwithstanding the fact that they were issued in October 2014. The nominal value of these ordinary shares of £8m, together with share premium of £284m, has been recognised in called up share capital and the share premium account respectively.

As described more fully in Note 36 of the consolidated financial statements, the ultimate parent company, TUI AG, is the beneficial owner of 53.72% (2013: 54.48%) of the Company's issued ordinary share capital as at 30 September 2014.

At 30 September 2014, 7,451,101 shares (2013: 8,047,575 shares) were held by the Group's Employee Benefit Trust. Based on the 30 September 2014 closing mid share price of £3.89 (2013: £3.68) the value of shares held was £29m (2013: £30m).

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 in the open market, it has not done so in either the current or prior years.

L. Capital and reserves

	Called up share capital £m	Share premium account £m	Profit and loss account £m	Convertible bond reserve £m	Other reserves £m	Total shareholders' funds £m
At 1 October 2012	112	—	263	88	33	496
Repurchase of own shares	—	—	3	—	(19)	(16)
Share-based payment charge for the year (net of 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
Repurchase of own shares	—	—	—	—	(33)	(33)
Share-based payment charge for the year (net of tax)	—	—	—	—	24	24
Profit for the financial year	—	—	345	—	—	345
Conversion of convertible bonds (net of tax)	10	337	47	(24)	—	370
Dividends paid	—	—	(150)	—	—	(150)
At 30 September 2014	122	337	648	67	20	1,194

As detailed in Note K above, a total of 99,541,916 ordinary shares of 10p each with a nominal value of £10m and share premium of £337m has been credited to called up share capital and the share premium account in the year. A further £47m has been transferred from the convertible bond reserve to the profit and loss account on the conversion and extinguishment of the equity element of the convertible bond. Other reserves comprise of share-based payment reserves.

M. Contingent liabilities

There were contingent liabilities at 30 September 2014 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 2014, the Company had contingent liabilities in respect of counter-guarantees for letters of credit amounting to £120m (2013: £136m). The Company has also guaranteed £15m of external bank facilities of its Russian joint venture, TT-Travel LLC, of which it indirectly owns 49%.

The Company is an obligor to the Group's revolving credit facilities totalling £1,225m, details of which are set out in Note 26(F) of the consolidated financial statements. At 30 September 2014, the drawdown portion of this facility was £nil (2013: £nil).

As disclosed in Notes 6 and 10 of the consolidated financial statements, the Group has established a pension funding partnership as part of the deficit funding arrangements for the three main UK defined benefit pension schemes. The arrangements between the parties involved, one of which is the Company, include an obligation on the Company to pay cash into the TUI Travel Amber E&W LLP should TUI UK Limited's turnover fall below certain thresholds, should either of the Thomson or First Choice brands ('Brand Assets') be sold, should a formal valuation conclude that the distressed value of the Brand Assets, together with any other permitted assets, have declined to a value below £276m and, during the final five years of the structure, should the Company have insufficient bank facilities to pay the total capital payments due to the schemes.

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.

N. Related party transactions

In April 2010 the Company issued a £400m fixed rate 4.9% convertible bond, of which an 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. By way of security, TUI AG has transferred to Antium Finance Ltd 86,967,049 shares, representing 7.14% of the Company's share capital on an undiluted basis, and these shares are restricted from being transferred. However, TUI AG remains entitled to the dividend yields, to exercise the voting rights attached to them and to repurchase them by July 2016 at the latest.

Further details of the convertible bonds are given in Notes 20 and 31 of the consolidated financial statements.

O. Post balance sheet events

On 15 September 2014, the Independent Directors of the Company and the Executive Board (Vorstand) of TUI AG announced that they had reached agreement on the terms of a recommended all-share nil-premium merger of the Company and TUI AG (the 'merger'), to be implemented by way of a scheme of arrangement of the Company under Part 26 of the Companies Act 2006 (the 'Scheme'). The scheme document in connection with the Scheme, containing the notice of the Court Meeting and Notice of General Meeting, was published on 2 October 2014 (the 'Scheme Document').

At the Court Meeting of the Scheme Shareholders and the General Meeting of the TUI Travel Shareholders, both held on 28 October 2014, the resolutions contained in the notice of the Court Meeting and Notice of General Meeting were duly passed by the requisite majorities. It is expected that the Court Hearing to sanction the Scheme will be held on 10 December 2014 and that the Scheme will be effective on 11 December 2014 (as set out in the Scheme Document).

Shareholder information

Contacts and advisers

Secretary and Registered Office

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Company website

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Shareholder discount

In compliance with German Law, with effect from the completion of the merger with TUI AG, it will no longer be possible to offer a discount to Shareholders.

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

CO₂/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

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Boone Design and Magenta Digital.

Photography supplied by
TUI Travel PLC businesses.

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