

## Corporate Governance

### The Board of Directors

The Company is controlled through its Board of Directors which meets regularly, including away days, to review the strategy of the Group. The schedule of matters specifically reserved to it for decision include: determining the strategy and control of the Group; amendments to the structure and capital of the Group; approval of financial reporting and controls; 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 delegated authority to the Committees of the Board on specific matters. The executive management is delegated to the Chief Executive, Executive Directors and certain other senior managers who, together, form the Group Management Board (GMB), the membership of which is disclosed on pages 12 and 13. Membership of the Nomination, Audit and Remuneration Committees are given on page 130. The Terms of Reference for the Board and its Committees are available for inspection on the Company's website and will be available at the Annual General Meeting (AGM).

The division of responsibilities between the Chairman and Chief Executive is clearly established and has been agreed by the Board. All Directors have access to the advice and services of the Company Secretary and all Directors can take independent professional advice, if necessary, at the Company's expense. No such advice was sought by any Director during the year. The Company has in place appropriate insurance cover in respect of legal actions against its Directors and the level of cover is regularly reviewed. The Company Secretary is responsible for ensuring Board procedures are followed including the formal minuting of any unresolved concerns that Directors may have in connection with the operation of the Company. During the year, there were no such unresolved issues.

The Chairman, Dr Michael Frenzel, did not meet the independence criteria laid out in the provisions of the Combined Code at the time of his appointment. This is because Dr Frenzel is the Chief Executive of TUI AG – a 51% shareholder of the Company.

Details of the Chairman's other significant commitments are given in his biography on page 37. The Chairman does have a number of other external roles but the Board is satisfied that these do not interfere with the performance of his duties as Chairman of the Company.

Of the 11 Non-Executive Directors, two are not considered to be independent – Dr Michael Frenzel and Rainer Feuerhake. Rainer Feuerhake is also an Executive Director of TUI AG which is a 51% shareholder of the Company. The appointments of Dr Frenzel and Rainer Feuerhake are pursuant to the Relationship Agreement between the Company and TUI AG dated 29 June 2007.

The Non-Executive Directors considered to be independent are Sir Michael Hodgkinson, Tony Campbell, Clare Chapman, Bill Dalton, Jeremy Hicks, Dr Erhard Schipporeit, Dr Albert Schunk, Harold Sher and Giles Thorley.

The Board recognises that the Combined Code requires that at least half the Board, excluding the Chairman, should be independent Non-Executive Directors. The Board has 17 members, of whom nine are deemed to be independent. Dr Erhard Schipporeit, Dr Albert Schunk and Harold Sher were appointed on 29 October 2007 and therefore the Company was compliant with provision A3.2 of the Combined Code for 11 months of the year. The Board is committed to seek to ensure that its membership is regularly refreshed.

The letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered offices and will be available at the AGM which is scheduled to take place on 5 February 2009.

All Directors are subject to re-election by shareholders at intervals of no more than three years. The Directors retiring by rotation and offering themselves for re-election at the AGM on 5 February 2009 are Paul Bowtell, Bill Dalton, Jeremy Hicks, Sir Michael Hodgkinson, Christoph Mueller and William Waggott.

Full biographical details of all Directors are on pages 36 and 37. Shareholders will be sent, as part of the papers accompanying the resolutions to re-elect the Non-Executive Directors, statements as to why the Company believes they 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 Company amended its articles of association in March 2008 to deal with, amongst other things, the provisions on conflicts of interest in the Companies Act 2006 which came into force in October 2008. Following this, the Company has put in place procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such conflict matters by the Board. In deciding whether to authorise a conflict or potential conflict the Directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, may be reviewed at any time and will be reviewed formally by the Board on an annual basis.

### **Nomination Committee**

The nomination of suitable candidates for approval of the Board of Directors to fill Executive and Non-Executive vacancies on the Board is carried out by the Nomination Committee, which comprises the Chairman and four Non-Executive Directors. The composition of the Nomination Committee is set out on page 130.

In relation to the appointments of the three additional Non-Executive Directors who were appointed in October 2007, a description of the roles and required capabilities was prepared and external advisers brought suitable candidates to the attention of the Board. These candidates were then subjected to scrutiny by the Nomination Committee in accordance with its Terms of Reference. A meeting of the Committee – chaired by Sir Michael Hodgkinson (Non-Executive Deputy Chairman) – was held to consider the appointments of Dr Erhard Schipporeit, Dr Albert Schunk and Harold Sher. The Nomination Committee considered the existing skills and knowledge of the Board and the other significant commitments of Messrs Schipporeit, Schunk and Sher as part of the appointment process.

Following the appointment of any new Director, the Chairman, in conjunction with the Company Secretary, ensures that a full, formal and tailored induction to the Company is provided. A detailed Induction and Training Manual was provided to all the Directors of the Company during the year.

### **Audit Committee**

The Audit Committee operates under written Terms of Reference to assist the Board in the discharge of its duties with regard to the Group's accounts, the review of internal controls and risk management systems and the external audit.

The composition of the Audit Committee, which is chaired by Jeremy Hicks, is set out on page 130. All members of the Committee are considered to be independent. In accordance with the Combined Code, the Board is satisfied that Jeremy Hicks has 'recent and relevant financial experience'.

The Chief Financial Officer, Director of Group Audit Services and the Director of Risk Management are normally invited to meetings and other Directors, including the Chief Executive and the Non-Executive Directors, may also attend. The Chairman of the Committee also meets with the external auditors without management present.

The Committee's duties, which were discharged during the year, include:

- Monitoring the integrity of the financial statements of the Company and formal announcements relating to the Company's financial performance and reviewing the significant financial reporting judgements contained in them.
- Reviewing the Company's internal financial controls and the Company's internal control and risk management systems.
- Monitoring the effectiveness of the Company's Group Audit Services function through meetings with the Director of Group Audit Services, the agreement in advance of annual work plans and the review of the results of the work undertaken.
- The consideration of the appointment, re-appointment and removal of the external auditors and the approval of their remuneration and terms of their engagement.
  - PricewaterhouseCoopers (PwC) were appointed auditors of the shelf company – Coppereagle PLC (which changed its name to TUI Travel PLC on 21 June 2007). The Company was formed to effect the merger of First Choice Holidays PLC (First Choice) and certain entities within the Tourism Division of TUI AG (TUI companies). As KPMG were more familiar with the audit of First Choice Holidays PLC it was agreed that they should act as the auditors of the holding company TUI Travel PLC. Accordingly, PwC resigned on 2 May 2008. A statement of circumstances in accordance with section 519 of the Companies Act 2006 was circulated to shareholders with an explanatory letter.
  - The Board decided that, in the first year of significant integration, each subsidiary company in the newly-formed Group would be audited by the existing statutory auditors and that PwC should remain the appointed auditor of all the predecessor TUI companies and that KPMG Audit Plc should remain the appointed auditor of the First Choice companies.
  - The level of remuneration for PwC and KPMG Audit Plc has been approved. As part of the appointment process the independence of the auditors was also reviewed.
- A policy for the engagement of the external auditors to supply non-audit services was approved on 29 October 2007. The Audit Committee has concluded that, in some cases, the provision of non-audit services by the incumbent auditors, which does not impact on their independence in providing their primary statutory audit role, is appropriate and this has been communicated to the Board. Auditor independence and objectivity are safeguarded by the Audit Committee monitoring and approving, where appropriate, the nature of the work and the level of fees paid for non-audit services as a proportion of the total audit fees paid.

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#### Board and Committee meetings

	Scheduled Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Dr Michael Frenzel (Non-Executive Chairman)	7(7)	N/A	3(5)	2(2)
Sir Michael Hodgkinson (Non-Executive Deputy Chairman and Senior Independent Director)	7(7)	N/A	N/A	2(2)
Peter Long (Chief Executive)	7(7)	N/A	N/A	N/A
Paul Bowtell (Chief Financial Officer)	7(7)	N/A	N/A	N/A
Johan Lundgren (MD Northern Region)	7(7)	N/A	N/A	N/A
William Waggott (Commercial Director)	7(7)	N/A	N/A	N/A
Christoph Mueller (Aviation Director)	7(7)	N/A	N/A	N/A
Volker Böttcher (MD Central Europe)	6(7)	N/A	N/A	N/A
Rainer Feuerhake (Non-Executive Director)	7(7)	N/A	4(5)	2(2)
Tony Campbell (Non-Executive Director)	6(7)	7(8)	5(5)	N/A
Clare Chapman (Non-Executive Director)	5(7)	N/A	4(5)	1(2)
Bill Dalton (Non-Executive Director)	7(7)	8(8)	5(5)	N/A
Jeremy Hicks (Non-Executive Director)	6(7)	8(8)	N/A	2(2)
Giles Thorley (Non-Executive Director)	5(7)	5(8)	N/A	N/A
Dr Albert Schunk (Non-Executive Director)	7(7)	N/A	N/A	N/A
Harold Sher (Non-Executive Director)	7(7)	N/A	N/A	N/A
Erhard Schipporeit (Non-Executive Director)	5(7)	N/A	N/A	N/A

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

Following the successful integration of the Group's businesses as part of the merger process, the Chairman intends to hold his first meeting with the Non-Executive Directors – without the Executive Directors being present – in early 2009.

#### Board, Committees and individual performance

As the Board and its Committees were newly-formed following the September 2007 merger, it was deemed appropriate to commence the Company's performance appraisal cycle after a sufficient number of meetings had taken place for an informed view to be taken. Accordingly the cycle commenced in June 2008.

To date, appraisals of the Audit and Remuneration Committees have taken place and it is planned to appraise the Board's – and each individual Board member's – performance in early 2009. The Chairman's evaluation will also take place in early 2009, led by the Senior Independent Director, and will take into account the views of the Executive Directors.

#### Audit Committee effectiveness review

An assessment of the effectiveness of the internal audit function was conducted by questionnaire to members of the Audit Committee and other relevant executives during the year and the results were presented to the Audit Committee for consideration. The review concluded that the Committee was operating in an effective manner.

#### Remuneration Committee effectiveness review

The performance of the Remuneration Committee was reviewed during the year via a self-assessment and independent evaluation process. The review concluded that the Committee was operating in an effective manner.

#### Internal control and risk

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, while the role of management is to implement Board policies on risk and control.

The system of internal 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 misstatement or loss. The Board has reviewed the effectiveness of internal controls during the year.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group; that this has been in place for the year under review and up to the date of approval of the Annual Report and Accounts; that this process is regularly reviewed by the Board; and that the process accords with the Turnbull Guidance. The key elements of the control framework and review processes in place across the Group are as follows:

- The Board sets corporate strategy and business objectives. The GMB and Sector management integrate these objectives into their operational and financial business plans. Where areas for improvement in the system of internal control are identified, the Board considers the recommendations made by the GMB and the Audit Committee.

- 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.
- Group Risk Management have designed a framework for risk management for TUI Travel PLC in line with Turnbull guidance, integrated with the short and long-term business planning processes and are in the progress of rolling this out across the organisation. They review the progress in line with this framework and report on the Group risk profile on a quarterly basis, providing a consolidated Group risk profile to the Audit Committee on a half-yearly basis. Additionally, at each Audit Committee meeting, the framework development is reported and individual Sector management teams are invited to review and discuss their risk profile on a rotational basis.
- The Audit Committee, with assistance from certain related management committees, oversees key risks, such as financial risk, health and safety, corporate and social responsibility and the environment, where such risks apply across all Sectors. The Board believes that, in order to be effective, risk management processes must be driven down to each operating unit. Accordingly, each Sector Board now addresses risk management as a standing agenda item and is responsible for ensuring that the risks facing that Sector's businesses are identified and that related action plans are implemented. Sectors formally report their risk profile on a quarterly basis.
- The Group Audit Services' function independently reviews the risk identification procedures and control processes implemented by management and reports its findings at each Audit Committee meeting, or more frequently if appropriate.
- The Audit Committee reviews the proposed work plans of the Group Audit Services' function; reports issued by Group Audit Services on the Group's risk assessment process; the system of internal control as well as reports on systems; and controls from the external auditors covering material weaknesses. The Chairman of the Audit Committee reports to the Board on the outcome of the Audit Committee meetings held and the Board receives the minutes of all such meetings.

- 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. Reports and forecasts are submitted monthly to the GMB and to each Board meeting. Weekly meetings on liquidity and fuel hedging take place attended by the Chief Executive, Chief Financial Officer, Group Treasurer and other senior managers as deemed necessary.
- 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.

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.

There are policies and procedures for the reporting by employees and the resolution of suspected fraudulent activities. It is the policy of the Group to employ staff and management of high integrity, to train them appropriately and to require compliance with all relevant laws, regulations and internal policies. The Group has independent third-party reporting mechanisms that allow employees to raise concerns on financial reporting or other matters. Any reports received are passed direct to Group Audit Services which acknowledges receipt and periodically reports back on a confidential basis to the independent third-party on any action taken. Within its regular report to the Audit Committee, Group Audit Services provides a summary of any confidential reports received and actions taken. A monthly report is also produced which includes a summary of all calls received highlighting any issues raised. For further information on risk management see page 33.

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#### Communication with shareholders

The Chief Executive and Chief Financial Officer 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](http://www.tuitravelplc.com)

The Combined Code recommends that the Senior Independent Director meets with a range of major shareholders to gain an understanding of their views. In practice and, as a result of the extensive investor feedback provided by the Chief Executive and the Chief Financial Officer, the Senior Independent Director and other Non-Executive Directors believe that they are aware of such issues and therefore considered that it was not necessary to arrange meetings with major shareholders for this purpose during the year. However, they would make themselves available if any major shareholder requested such a meeting.

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

At general meetings:

- The Company prepares separate resolutions on each substantially separate issue and does not combine resolutions together inappropriately.
- A schedule of proxy votes cast is made available for inspection at the conclusion of the proceedings.
- The Annual Report and Accounts is laid before shareholders at the Annual General Meeting.

#### Combined Code Provisions

For the reasons disclosed above and in the Remuneration report on page 49, during the year the Company did not fully comply with the following provisions often for reasons associated with the timing of the merger:

- Code Provision A1.3. The Chairman should hold meetings with only the Non-Executives present. Led by the Senior Independent Director, the Non-Executives should meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate.
- Code Provision A2.2. The Chairman should on appointment meet the independence criteria set out in Code A3.1.
- Code Provision A3.2. Half the Board, excluding the Chairman, should comprise independent Non-Executive Directors (compliant for 11 months following appointment of additional Non-Executive Directors in October 2007).
- Code Provision A6.1. The Board should state in the Annual Report how performance evaluation of the Board, its Committees and its individual Directors has been conducted. The Non-Executive Directors, led by the Senior Independent Director should be responsible for performance evaluation of the Chairman, taking into account the views of the Executive Directors.
- Code Provision B2.1. The Remuneration Committee should all be independent Non-Executive Directors.
- Code Provision D1.1. The Senior Independent Director should meet with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.