

## Report of the Directors

The Directors submit their report to the members of TUI Travel PLC (the Company) for the 14-month period (the period) ended 30 September 2008.

### Principal activity

The Group's principal activity is that of an international leisure travel business. It provides a broad and diverse range of leisure travel experiences to more than 30m customers in 25 different source markets.

### Business review

The Business and financial review for the year ended 30 September 2008 is set out on pages 11 to 35 and forms part of the Report of the Directors.

### Business combination

On 3 September 2007, 1,118,010,650 shares were issued by the Company in connection with the business combination of the Tourism Division of TUI AG (excluding certain hotel assets) (TUI Tourism group of companies) and First Choice Holidays PLC (the Business Combination). The Business Combination completed on 3 September 2007 and, on that date, the Company's ordinary shares were admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities.

In September 2007, the Company extended its accounting reference date from 31 July to 30 September 2008.

The previous accounts for the Company were made up to 31 July 2007 - prior to the Business Combination. In accordance with the provisions of IFRS 3 (Business Combinations) an acquirer must be identified in the combination of the two groups. The identified acquirer is the TUI Tourism group of companies. Therefore the consolidated financial statements of the TUI Travel PLC Group of Companies (the Group) are prepared for the year ended 30 September 2008 with statutory comparative information being given for the 9-month period ended 30 September 2007 - which is the accounting reference date for the former TUI Tourism group of companies. The consolidated financial statements are prepared on the basis set out in Note 1 to the consolidated financial statements.

### Results and dividends

The Group loss before taxation for the year ended 30 September 2008, was £266.6m (2007: 9-month statutory profit before taxation £18.4m).

On 7 April 2008, an initial interim dividend of 5.90p per ordinary share was paid.

The Directors recommend a final dividend of 6.90p per ordinary share, payable on 6 April 2009 to holders on the register at the close of business on 13 March 2009. When taken with the interim dividend of 2.80p per ordinary share paid on 1 October 2008, this gives a total dividend of 9.70p paid by the Group relating to the year ended 30 September 2008.

### Share capital

The authorised and issued share capital of the Company, together with details of the movements in the Company's issued share capital during the year, are shown in Note 23 to the financial statements.

On 18 March 2008, 49,998 non-voting, non-dividend bearing Redeemable Preference Shares of £1 each in the share capital of the Company held by TUI AG were redeemed.

### People agenda

TUI Travel operates a global portfolio of businesses, employing approximately 50,000 people across the Group - including Europe, the USA, Canada, Asia and Australia. Although businesses within our portfolio are at various stages of development and maturity, together we share a common vision and set of values. Our aim is to build the most capable and engaged teams to deliver optimum business performance and thereby support the goals of delivering high performance to create superior shareholder value and career fulfilment for all of our colleagues.

Our commitment to our colleagues is to:

- Engage them in our aims and success - and in matters that affect them.
- Promote a positive workplace.
- Reward them in a way which is right for them and reflects their contribution to the Group's success.

### Our commitment to attracting, developing and retaining talent

We are proud of the commitment and dedication of our colleagues in delivering the levels of service and efficiency which make us stand out from our competitors. Everyone is valued for their skills and talents and every effort is made to support them to achieve their full potential. We are committed to using the most effective recruitment methods in the countries in which we operate and to building skills and knowledge in ways which suit both the business and our colleagues.

Our leadership capability is key to our success and we therefore continue to invest in developing our leaders. A number of our senior managers have had the opportunity of attending a leadership programme working in a community in Costa Rica. This is a Groupwide programme, which builds the skills and capability of those with the greatest responsibility for leadership and strategy, as well as supporting our sustainable tourism goals. There is also a Groupwide management programme targeted at middle management and an international trainee programme through which we recruit and develop young talent. Investment in the capability of our colleagues is a priority and they get the opportunity for dialogue on their training needs each year.

Everyone also has the opportunity to meet their line manager at least once annually to discuss their performance and to make plans for development in the coming year. A range of performance and development tools enable individuals to identify training opportunities, understand the role they play in our success and support the setting of personal objectives linked to our business plans.

Retaining key people is critical to our continued business success particularly in times of change. Talent across the Group is reviewed regularly at Board level and our focus is to retain and develop individuals to drive the business forward. We actively promote people to career opportunities across the Group to enhance the mix of professional, entrepreneurial and general management skills. To meet seasonal demands, where possible, we move our top performing frontline colleagues between retail, overseas representation and airline cabin crew roles. This develops a multi-skilled workforce with year-round experience of delivering service to our customers.

#### **Rewarding people and valuing their contribution**

We have a reward strategy developed around Groupwide principles ensuring alignment to our business objectives, with flexibility to enable successful local implementation across many differing geographies. Recognising and rewarding our colleagues in ways that are effective for them is a key driver for engagement and high performance. Our reward strategy includes base pay, competency pay, incentives, benefits and non-cash based rewards. We make every effort to measure the input and results of individuals and teams. Many people participate in share-based incentives, giving them an interest in the financial performance of the Company.

We encourage participation and meet our social and formal obligations through a wide range of representation forums. Opinion surveys, including a specific leadership survey across the Group's senior managers, are conducted to monitor our colleagues' knowledge of business direction, the level of engagement in our vision and values and views on the Company's practices and policies.

As a global Group, we operate in many diverse cultures and accept our responsibility to rule out discrimination on any grounds including ethnicity, gender, sexual orientation, disability and age. We continue to develop policies on non-discrimination and inclusiveness in line with best practice and, where possible, they are incorporated into training for line managers as a key part of induction programmes. Unfair treatment of any colleague is not tolerated and confidential reporting mechanisms are available through which colleagues can confidentially raise matters of this nature which may concern them.

Ensuring that everyone shares our aims and are involved in matters which affect them is a key challenge to which we are committed. People work with us in many countries around the world – a significant number of whom are engaged on a seasonal basis. A key priority is that we hire people who we believe share our passion for our customers and products. We then build engagement through involvement, consultation and by providing regular local and global updates in ways which suit our working environment and local cultures.

A Group extranet, 'Discover', enhances communications across the businesses within the Group. The website provides a central source where everyone can find external and internal information about our businesses, the Sectors and the Group. This is in addition to, and complements, Sector communication tools and processes which are tailored to meet Sector specific needs.

#### **Sustainable Development**

We recognise our responsibility to monitor and manage any negative impacts on the environment and people and to maximise our positive impacts. We seek to make sustainable development central to the way we run and manage the Group. We aspire to lead in sustainable development within the leisure travel industry and beyond.

In early 2008, the managing directors of all Group businesses were asked to take into consideration sustainable development issues – with particular reference to climate change – when developing their business strategies.

This year, we have established a new governance structure for sustainable development within the Group. Johan Lundgren, Managing Director of TUI Northern Region, is responsible for reporting on sustainable development to the TUI Travel PLC Board. Dermot Blastland, Managing Director of TUI UK & Ireland, has responsibility for reporting on sustainable development to the Group Management Board.

Our senior-level Steering Committee, chaired by Dermot Blastland, is the driving force in establishing headline policy and objectives. The Committee meets twice a year and is composed of all Sector Managing Directors and a nominated Sector lead member responsible for driving sustainability forward within each Sector.

The Group has maintained a dedicated Sustainable Development team of three people. This team reports direct to Dermot Blastland and its role is to drive sustainability performance across the Group towards best practice. Finally, each Sector has a Sustainable Development Coordinator with a remit to promote and embed environmental and social issues throughout their sector.

For information on the Group's Sustainable Development strategy and projects see page 32.

#### **Policy and practice on payment of suppliers**

The Group's (TUI Travel PLC and subsidiary companies) operating units are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. Due to the nature of the Group's operations and in common with the industry as a whole, payments are often made in advance of the provision of goods and services. The Group does not follow any code or statement on payment practice but it is Group policy that payments to suppliers, whether in advance or after the provision of the goods or services, are made on the basis of the terms that have been agreed with them.

The Company (TUI Travel PLC) had no trade creditors at 30 September 2008 (31 July 2007: nil) and consequently creditor days have not been presented. Where the Company is the recipient of goods or services, payment of suppliers is conducted by one of the Group companies in accordance with the policy set out above.

## Report of the Directors

### continued

#### Directors

The Directors who served during the year and at the date of this report are set out below:

Director's Name	Title	Appointment date/ Resignation date
Dr Michael Frenzel	Non-Executive Chairman	28 June 2007
Sir Michael Hodgkinson	Non-Executive Deputy Chairman & Senior Independent Director	28 June 2007
Peter Long	Chief Executive	28 June 2007
Paul Bowtell	Chief Financial Officer	28 June 2007
Dr Volker Böttcher	Managing Director, Central Europe	19 June 2007
Tony Campbell	Non-Executive Director	28 June 2007
Clare Chapman	Non-Executive Director	28 June 2007
Bill Dalton	Non-Executive Director	19 March 2007
Rainer Feuerhake	Non-Executive Director	28 June 2007
Jeremy Hicks	Non-Executive Director	28 June 2007
Johan Lundgren	Managing Director, Northern Region	21 December 2007
Christoph Mueller	Aviation Director	28 June 2007
Peter Rothwell	Deputy Chief Executive	16 September 2007/ Resigned 21 December 2007
Dr Erhard Schipporeit	Non-Executive Director	29 October 2007
Dr Albert Schunk	Non-Executive Director	29 October 2007
Harold Sher	Non-Executive Director	29 October 2007
Giles Thorley	Non-Executive Director	19 March 2007
William Waggott	Commercial Director	28 June 2007

As at 30 September 2008, the Board comprised six Executive Directors and eleven Non-Executive Directors (including the Chairman). There have been no changes to the Board since that date. Biographical details of all the Directors are set out on pages 36 to 37.

In accordance with the Articles of Association, each year one-third of the Board members will retire by rotation and additional biographical details to enable shareholders to make an informed decision on the reappointment of the Non-Executive Directors are contained in the 2009 Notice of the Annual General Meeting (AGM). The Directors retiring by rotation at the AGM are Sir Michael Hodgkinson, Paul Bowtell, Bill Dalton, Jeremy Hicks, Christoph Mueller and William Waggott who, all being eligible, will offer themselves for re-election.

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

The terms of the Directors' service contracts are disclosed in the Remuneration Report commencing on page 49. Directors' interests in the shares of the Company are disclosed on page 58.

#### Directors' Insurance

The Company has purchased, and maintained throughout the year, Directors' and Officers' Liability insurance. In addition, cover has also been placed for any wrongful acts that occurred prior to the merger for both the former First Choice and TUI Tourism Directors.

#### Substantial shareholdings

As at 26 November 2008 the Company was aware of the following interests in the issued ordinary share capital of the Company:

	Shares (millions)	%
TUI AG	574,243,561	51.36
AllianceBernstein Investments L.P.	64,620,558	5.78
Standard Life Investments	37,707,800	3.37
Prudential Plc	33,942,313	3.03

Save as above, no other person has reported an interest, which is notifiable under the Companies Act 1985, being an interest of 3% or more in the issued ordinary share capital.

### Significant agreements – change of control

The Companies Act 2006 requires us to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company.

#### Relationship Agreement with TUI AG

The Relationship Agreement between TUI AG and TUI Travel, dated 29 June 2007, includes the principle that TUI Travel will operate independently of TUI AG and records the understanding between TUI AG and TUI Travel regarding the relationship between them and the governance of TUI Travel. The Relationship Agreement will remain in force until either the shares in TUI Travel are no longer admitted to trading on the London Stock Exchange, or TUI AG has less than 10% of the rights to vote at general meetings. In addition, in the event that another party acquires control of TUI AG during the term of the Relationship Agreement, TUI AG will lose certain rights under the Relationship Agreement including its rights in respect of the composition of the Board.

The Relationship Agreement contains restrictions on the acquisition by TUI AG of additional shares in TUI Travel which result in the increase of its shareholding to more than 55% of the voting rights (save where TUI AG makes a general offer to acquire all TUI Travel shares in issue). 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.

#### £770 million bank revolving credit facility agreement

An agreement dated 29 June 2007 between a number of relationship banks and the Company relating to a £770m bank revolving credit facility currently provided to the Company, contains 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:

- i any person or group of persons acting in concert gains control of the Company; or
- ii TUI AG and any persons acting in concert with it acquires or acquire 75% or more of the voting shares in the Company.

No other agreements which take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business of the Group as a whole.

#### 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 to the consolidated financial statements.

#### Charitable and political donations

The Group is committed to being proactively involved in protecting the natural environment and benefiting local communities in destination and source markets. During the year, the Group made charitable donations of £236,200 (£181,000 for nine months to 30 September 2007). The Group made no political contributions during the year (2007: £nil).

#### Financial risk management

Details of the Group's financial risk management objectives and framework are included in the Corporate Governance report on pages 46 and 47, and in the Responsible leadership section on page 33.

#### Auditors

On 2 May 2008, PricewaterhouseCoopers LLP resigned as auditors of the Company and the Directors appointed KPMG Audit Plc as auditors. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

In accordance with the Companies Act 2006, a copy of the statement of circumstances connected with their ceasing to hold office was deposited with the Company on 6 May 2008 by PricewaterhouseCoopers LLP and this statement was circulated by the Company to all shareholders and other persons who are entitled to receive copies of the Company's annual report and accounts.

#### Statement of the Directors as to disclosure of information to Auditors

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Other matters

An explanation as to the business to be transacted at the Annual General Meeting which is to be held on Thursday 5 February 2009 at 10.30am, is contained in the explanatory notes to the Notice of Annual General Meeting which accompanies this Report and Accounts.

By Order of the Board



**Andrew John**  
Company Secretary  
26 November 2008