

TUI Travel PLC
("TUI Travel")

First Quarter Results ended 31 December 2013 and Interim Management Statement

- Q1 underlying operating loss reduced by £8m to £108m¹
- Robust current trading with a strong performance in the key January booking period
- Demand for our unique holidays continues to grow
- Strong growth in online bookings
- Confident of delivering full year underlying operating profit growth of between 7% to 10%²

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

"We are very pleased with our current position having reduced the operating loss in the first quarter against a strong prior year performance. We have delivered further efficiency savings in France and an improved result in Specialist & Activity. Our digital transformation continues to gather pace, with a very successful online performance across Mainstream throughout the key January booking period. We also continue to see strong growth in our Accommodation Wholesaler business. Our strategy is delivering sustainable growth, with a robust business model focused on growing unique holidays and online distribution. Overall, trading remains in line with our expectations and we are confident of delivering 7% to 10% growth in underlying operating profit during the year."²

Highlights

- **Q1 Results**
 - Underlying operating loss reduced by £8m to £108m (Q1 2013: loss of £116m) against a strong prior year performance.
 - France restructuring and capacity management helping to drive a reduction in operating loss.
 - Strong trading in Accommodation Wholesaler continues, while Specialist & Activity has delivered an improved performance.
- **Robust current trading - strong performance in key January booking period**
 - Winter 2013/14 is closing out in line with our expectations – 85% of the programme sold, with higher average selling prices in most source markets.
 - Pleased with Summer 2014 trading, in particular our performance in the key January booking period, with higher average selling prices and Mainstream volumes up by 1% against tough comparatives.
 - Excellent online performance with Mainstream Summer 2014 online bookings up by 8%.
 - Continued growth in sales of unique holidays which account for 74% of Mainstream Summer 2014 bookings, up two percentage points on prior year.
- **Accommodation Wholesaler growth**
 - Continues to build on its global leadership position.
 - TTV up by 45% in early Summer 2014 trading.
- **Growth roadmap**
 - In the second year of our five-year growth roadmap our strategy continues to deliver and we remain confident of achieving our growth targets.

Investor and Analyst Conference Call

A conference call for investors and analysts will take place today at 8.15am (GMT). The dial-in arrangements for the call are as follows:

Telephone: +44 (0)1452 555 566
Participant Code: 32894378

A presentation to accompany the conference call will be made available at 8.00 am (GMT) via our corporate website:

<http://www.tuitravelplc.com>

A recording of the conference call will be available for 30 days on:

Telephone: +44 (0)1452 550 000
Participant Code: 32894378

Pre-close Trading Update

TUI Travel will issue a pre-close trading update on Wednesday 26th March 2014.

Enquiries:

Analysts & Investors

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¹ Underlying operating loss excludes separately disclosed items, acquisition related expenses, impairment of goodwill 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 in the current and prior year

CURRENT TRADING & OUTLOOK

Winter 2013/14

The Winter 2013/14 season is closing out as expected, with 85% of the programme sold and strong pricing across most of our source markets. We have reshaped our programme in select markets, including capacity reductions to Egypt. We continue to focus on growing our core package holiday offering. Overall Mainstream bookings are in line with expectations, down by 4% excluding Egypt with average selling prices up 4%.

We continue to deliver sustainable growth through our unique holiday experiences, increasingly distributed online. Unique holidays account for 71% of all Mainstream bookings, up three percentage points compared with this time last year, whilst online sales continue to grow, accounting for 39% of Winter holidays booked, up by five percentage points. In Accommodation Wholesaler, TTV is up by 21%, driven by Latin America and Asia, whilst trading in Specialist & Activity is in line with expectations.

<u>Current Trading¹ incl Egypt</u>		<u>Winter 2013/14</u>		
YoY variation%	Total ASP ²	Total Sales ²	Total Customers ²	Programme sold (%)
MAINSTREAM				
UK	+4	+1	-2	77
Nordics	-1	-3	-2	93
Germany	+6	-5	-10	83
France tour operators	+13	-28	-36	92
Other ³	+3	+1	-2	
Total Mainstream	+3	-4	-7	85
Accommodation Wholesaler⁴	Flat	+21	+21	

¹ These statistics are up to 2 February 2014 and are shown on a constant currency basis

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

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

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

Summer 2014

For Summer 2014, we remain pleased with trading, with overall Mainstream bookings up by 1% against tough comparatives, and average selling prices up by 3%. We continue to see strong demand for our unique holidays, which account for 74% of Mainstream bookings, up two percentage points. Mainstream online bookings are up 8%. Within this, UK online bookings increased by 12% during the key January booking period, with traffic to our newly optimised mobile and tablet websites up by 45%. Overall trading in Mainstream is in line with our expectations and, to date, approximately 33% of the overall Mainstream Summer programme has been sold, in line with this time last year.

Our Accommodation Wholesaler business has had a strong start to the year, with TTV for Summer 2014 up by 45%, driven by growth in Asia and Latin America and a rebound in Spain. Our restructured Specialist & Activity business has started the year well with sales up by 4%.

Fuel/Foreign exchange

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

	Winter 2013/14	Summer 2014
Euro	94%	83%
US Dollars	95%	89%
Jet Fuel	91%	83%

As at 31 January 2014

Outlook

We remain pleased with trading for the Summer, particularly in Germany and the UK, despite strong comparatives overall. We are also encouraged by an improved performance by our French tour operator and Specialist & Activity Sector. Our Accommodation Wholesaler business also continues to achieve sustained double-digit growth, driven by Asia and Latin America. We expect to deliver a H1 result broadly in line with last year, excluding the timing of Easter which falls in the second half of the year.

Our strategy is delivering sustainable growth, with a robust business model focused on growing both unique products and online distribution. Momentum in our digital transformation strategy continues to gather pace, delivering an enhanced customer experience which is central to our strategy. Overall we remain confident of consistently achieving our five-year annualised growth target of between 7% to 10% underlying operating profit growth on a constant currency basis.

BUSINESS AND FINANCIAL REVIEW

Group Performance

First quarter ended 31 December 2013

£m	Underlying results ¹			Statutory results	
	Q1 14	Q1 13	Change%	Q1 14	Q1 13
Revenue	2,731	2,718	Flat	2,731	2,718
Operating loss	(108)	(116)	+7%	(134)	(149)

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

Group revenue during the quarter was flat on the prior year at £2,731m (Q1 2013: £2,718m). The Group's underlying operating loss decreased to £108m (Q1 13: loss of £116m). Our business improvement programme is progressing to plan with £4m delivered in the quarter.

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

£m	Q1 13 underlying operating loss	(116)
Trading		7
Investment in Accommodation OTA		(1)
Business improvement		4
FX translation		(2)
Q1 14 underlying operating loss		(108)

The reconciliation of underlying operating loss to statutory operating loss for the three-month period ended 31 December 2013 is as follows:

	Q1 14	Q1 13
	£m	£m
Underlying operating loss	(108)	(116)
Separately disclosed items	(7)	(9)
Acquisition related expenses	(15)	(17)
Impairment of goodwill	-	(7)
Taxation on profits and interest of joint ventures and associates	(4)	-
Statutory operating loss	(134)	(149)

Quarterly Segmental Performance

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

	Total Mainstream	Emerging Markets	A&D	Specialist	Central	Total Group
Customers ('000)						
Q1 14	3,370	-	-	218	-	3,588
Q1 13	3,573	-	-	254	-	3,827
Change %	-6%	-	-	-14%	-	-6%
Revenue (£m)						
Q1 14	2,292	-	173	266	-	2,731
Q1 13	2,305	-	146	267	-	2,718
Change %	-1%	-	+18%	Flat	-	Flat
Underlying operating (loss)/profit (£m)¹						
Q1 14	(83)	(5)	6	(16)	(10)	(108)
Q1 13	(86)	(4)	5	(22)	(9)	(116)
Change %	+3%	-25%	+20%	+27%	-11%	+7%

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

Mainstream Sector

Mainstream Sector underlying operating loss reduced by £3m to £83m (Q1 2013: loss of £86m). This included a £2m adverse impact from foreign exchange translation.

In the UK, our Q1 performance was in line with the same period last year. We continued to see strong demand for unique holidays, accounting for 85% of departures in Q1, up four percentage points on the prior year. The result also benefited from a three percentage point increase in direct distribution to 90%. Online bookings accounted for 50% of all bookings during the first quarter, up six percentage points year-on-year. These improvements were offset by the impact of a decline in demand for holidays to Egypt, as a result of unrest in the region.

The Nordics' Q1 result was down on the prior year, driven by weaker pricing due to a significant reduction in the Egypt programme, political unrest in Thailand and a more competitive environment. Unique holidays accounted for 91% of departures in Q1 2014. Direct distribution increased by two percentage points to 89%. Online distribution continues to grow, standing at 67% of holidays in Q1, up four percentage points over the prior year.

The Q1 result in Germany was ahead of last year driven by robust trading margins. Unique holidays accounted for 52% of departures in Q1 2014, up four percentage points over the prior year. Online bookings accounted for 9% of bookings during the first quarter, up two percentage points year-on-year.

France reported a decrease in operating loss, driven by a significant reduction in capacity on loss-making routes and the successful delivery of efficiency savings from the business improvement programme. During the quarter, we continued to remix our tour operator away from North African destinations and we reduced capacity on seat-only and long-haul destinations. We remain on target to reduce losses significantly in the French tour operator this year. The Airline performance was down on the prior year, due to the timing of maintenance events.

Emerging Markets

The Emerging Markets Sector delivered an underlying operating loss of £5m (Q1 13: loss of £4m), primarily due to a significant reduction in the Egypt programme of our Russian business.

Accommodation & Destinations (A&D) Sector

The A&D Sector reported an underlying operating profit of £6m (Q1 13: £5m). This was driven by the Accommodation Wholesaler division, where volumes increased due to continued growth in the source markets and destinations of the Americas and Asia. This helped to offset Accommodation OTA investment relating to our MalaPronta business and the impact on our agency business of unrest in Egypt and Tunisia.

Specialist & Activity Sector

The Specialist & Activity Sector reported an underlying operating loss of £16m (Q1 13: loss of £22m). The £6m improvement in operating loss relates to positive underlying trading across the Sector and good progress in consolidating finance and reservation systems across multiple brands. We reported a particularly strong performance from North American Specialist due to strong trading in our Quark polar cruising business and the timing of departures within Starquest (private jet tours). We remain confident of delivering underlying annualised profit growth of 8-10% on a constant currency basis.

Separately Disclosed Items (SDIs)

Separately disclosed items in the quarter totalled a £7m expense (Q1 13: £9m). This expense primarily relates to costs arising from the ongoing restructuring in Marine and France totalling £4m, and £3m of entry into service costs for B787 Dreamliners in the UK and Belgium.

Acquisitions

The Group acquired the majority shareholding in Le Passage to India Tours and Travels Private Limited (LPTI).

Financing

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

We signed a medium-term £300m bank credit facility in 2013, maturing in April 2016. This was to ensure the Group was in a position, if required, to redeem the £350m convertible bond that matures in October 2014. We expect to refinance our bank revolving credit facility approximately 12 months ahead of its maturity date.

Consolidated income statement (unaudited)

for the 3-month period ended 31 December 2013

	3-month period ended 31 December 2013	3-month period ended 31 December 2012 (restated)
	£m	£m
Revenue	2,731	2,718
Cost of sales	(2,575)	(2,574)
Gross profit	156	144
Administrative expenses	(287)	(294)
Share of (loss) / profit of joint ventures and associates	(3)	1
Operating loss	(134)	(149)
Analysed as:		
Underlying operating loss	(108)	(116)
Separately disclosed items	(7)	(9)
Acquisition related expenses	(15)	(17)
Impairment of goodwill	-	(7)
Taxation on (loss) / profit and interest of joint ventures and associates	(4)	-
	(134)	(149)
Financial income	5	4
Financial expenses	(37)	(36)
Net financial expenses	(32)	(32)
Loss before tax	(166)	(181)
Taxation	55	61
Loss for the period	(111)	(120)
Attributable to:		
Equity holders of the parent	(111)	(121)
Minority interest	-	1
Loss for the period	(111)	(120)

Basis of preparation (unaudited)

The unaudited financial information in this report relates to the 3-month periods ended 31 December 2013 and 31 December 2012. This unaudited financial information does not constitute the statutory accounts of TUI Travel PLC within the meaning of section 434 of the Companies Act 2006.

The unaudited financial information relating to the income statement for the 3-month periods ended 31 December 2013 and 31 December 2012 has been prepared on the basis of the Company's Adopted IFRSs accounting policies, which are disclosed in Note 1 of the consolidated financial statements for the year ended 30 September 2013, except for that the Group has adopted IFRS 13 as well as a number of amendments to existing standards, the most notable of which is the adoption of IAS 19 (revised 2011) 'Employee benefits'.

As disclosed in the Group's 2013 consolidated financial statements, the most significant impact for the Group of IAS 19 (revised 2011) is in relation to the accounting treatment for financial income and expenses, whereby the interest expense is now calculated on the net defined benefit liability by applying the discount rate to the net defined benefit liability. This replaces the interest cost on the defined benefit obligation and the expected return on plan assets. The adoption of this revised standard is required to be applied retrospectively. Accordingly, the comparative information in respect of the 3-month period to 31 December 2012 has been restated. Financial income has been restated from £21m to £4m and financial expenses have been restated from £50m to £36m. Net financial expenses therefore increases from £29m to £32m and the taxation credit increases from £60m to £61m. This restatement has had no effect on total comprehensive income as the increased net cost in the consolidated income statement is offset by a credit in other comprehensive income.