

TUI Travel PLC
("TUI Travel")

Preliminary results for the year ended 30 September 2013
ANOTHER RECORD YEAR WITH UNDERLYING OPERATING PROFIT GROWTH OF 20%

- Record underlying operating profit delivered; 2013 growth roadmap target exceeded
- Mainstream growth driven by unique holidays, direct distribution and scale
- Leveraging our global leadership position in Accommodation Wholesaler
- Delivering increased shareholder value
- Robust current trading

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

"The year has been outstanding and highlights that our strategy of delivering unique holidays sold directly to our customers is the right one. We have once again reported record underlying profits across the business, significantly exceeding the top end of our growth roadmap target of 10%. This follows strong margins across the peak Summer period, particularly in the UK and accelerated business improvement delivery.

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

Key financials

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

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

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

Highlights

- **Record underlying operating profit delivered; 2013 growth roadmap target exceeded**
 - Underlying operating profit of £589m (2012: £490m), an increase of 20% over the prior year. Underlying operating profit increase of 13% to £555m on a constant currency* basis.
 - Record Mainstream underlying operating profits of £514m (2012: £420m)
 - Underlying UK operating profit growth of 27% to £251m (2012: £197m) with an operating margin increase of 110bp to 6.5%.
 - Underlying German operating profit growth of 30% to £113m (2012: £87m) with operating margin up 50bp to 2.7%.

- Business improvement programme delivered higher than expected £46m of additional profit in the year.
- Strong underlying earnings per share growth of 19% to 30.8p (2012: 25.8p).
- Statutory operating profit of £297m (2012: £301m), with the reduction driven by a goodwill impairment of £188m relating to our Specialist & Activity business and French tour operator.

- **Mainstream growth driven by unique holidays, direct distribution and One Mainstream**

- Sales of higher-margin unique holidays now 69% of Mainstream holidays. Directly distributed holidays are 66% of Mainstream holidays, with online sales at 35%.
- Record levels of customer satisfaction, up two percentage points to 79% across our key markets.
- Our investment in the digital customer service proposition and our online platform is delivering clear benefits to our customers.

- **Leveraging our global leadership position in Accommodation Wholesaler**

- Accommodation Wholesaler continues to consolidate its global leadership position; TTV growth of 23% to £1,655m driven by a strong performance in Asia and Latin America.

- **Delivering increased shareholder value**

- Record cash flow generation, with free cash flow of £427m, an improvement of £122m. The net cash position of £2m** (2012: net debt of £142m)** provides further balance sheet strength.
- Cash conversion improved by 12 percentage points to 90%, underlying ROIC improved by 2.6 percentage points to 14.8%.
- Final dividend increase of 17% to 9.75p per share (2012: 8.3p), resulting in a full year dividend increase of 15% to 13.5p per share (2012: 11.7p).

- **Robust current trading**

- Overall, Winter 2013/14 trading is in line with our expectations, with 60% of the programme sold.
- Pleased with Summer 2014 trading, despite strong comparatives from the prior year.
- We remain confident of delivering this year, in line with our target to deliver 7% to 10% underlying operating profit growth at constant currency over our five-year growth roadmap.

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

** Excludes restricted cash

Investor and Analyst Webcast

A presentation for analysts and investors will be held today at 9.15am (GMT) at Google, 1-13 St Giles High Street, London WC2H 8AG. The presentation will also be webcast. For details of the webcast please visit www.tuitravelplc.com.

Enquiries:

Analysts & Investors

Andy Long, Director of Strategy & Investor Relations
Tej Randhawa, Investor Relations Manager
Sarah Coomes, Investor Relations Manager

Tel: +44 (0)1293 645 795
Tel: +44 (0)1293 645 829
Tel: +44 (0)1293 645 827

Press

Lesley Allan, Corporate Communications Director
Mike Ward, External Communications Manager
Michael Sandler / Kate Hoare (Hudson Sandler)

Tel: +44 (0)1293 645 790
Tel: +44 (0)1293 645 776
Tel: +44 (0)207 796 4133

OUR GROWTH LEVERS : CREATING SHAREHOLDER VALUE

We are very pleased with our performance this year against our clearly defined strategic growth levers. These drive improved profitability and free cash flow, and therefore, superior returns on investment. This improvement will allow us to invest further in the future of our business which will benefit our customers, colleagues and shareholders.

1. Delivering Mainstream Growth

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

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

One Mainstream continues to evolve, delivering greater benefits as one business across the strategic drivers of unique holidays, direct distribution and operational efficiency.

1.1 Unique holidays only available from TUI Travel

Unique holidays

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

Sales of higher margin unique holidays during the year increased by four percentage points to 69% of Mainstream holidays. This includes the UK and Germany, which both saw sales of unique holidays increase by four percentage points. The Nordics market saw unique holidays increase by one percentage point over the year. In the UK, 94% of Thomson holidays were unique in Summer 2013. We achieved a customer satisfaction score of 79% for our three largest Mainstream markets, a two percentage point increase over the prior year, driven by improved scores in all three source markets. Demand for unique holiday experiences continues to see strong growth and our customers are more delighted than ever with the holiday experiences we have designed for them.

One mobility platform

Our unique holiday offering gives us control over the end-to-end customer experience and an opportunity to interact with our customers throughout their journey. We have a clear digital strategy to enhance and deepen the relationship with our customers. This year we have successfully launched our award-winning digital assistant app in the UK and German markets. The apps have received almost 200,000 downloads to date and good levels of engagement with almost 100,000 shares through social media channels.

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

Flight experience

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

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

1.2 Distributed directly to the customer – growth from online

Direct distribution

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

One online platform

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

of 2014. The websites in our core online markets are now tablet and mobile optimised as our customers increasingly use their tablets and mobile devices to dream, plan, search and book with us.

Next generation retail stores

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

1.3 Leveraging our scale

As Europe's largest tour operator we leverage our scale across all source markets to consolidate our market-leading position and grow the number of customers travelling with us. Our One Mainstream structure is in place and yielding tangible benefits. The move from multiple online and back-end platforms to one core platform is a key driver of efficiencies going forward.

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

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

2. Organic Specialist & Activity growth

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

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

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

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

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

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

Accommodation Wholesaler delivered a 28% growth in underlying operating profit during the year at constant currency rates.

4. Investing in Accommodation OTA

In Accommodation OTA (online travel agent) our focus is to build on our strong brand positioning of LateRooms.com in the UK and expand in the emerging markets through AsiaRooms.com across Asia and in Brazil with MalaPronta, Brazil's fourth largest accommodation only OTA.

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

5. Focus on free cash flow generation, ROIC and operational efficiency

One of our key strategic objectives is to continue to improve the Group's profitability and free cash flow and therefore deliver superior returns on investment. This improvement will allow us to invest further in the future of our business which will benefit our customers, colleagues and shareholders.

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

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

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

CURRENT TRADING

Winter 2013/14

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

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

<u>Current Trading¹</u>		Winter 2013/14				
YoY variation%		Total ASP ²	Total Sales ²	Total Customers ²	Total Customers ² Excl Egypt	Programme sold (%)
MAINSTREAM						
UK		+6	+2	-4	+1	52
Nordics		-1	-3	-2	+9	73
Germany		+6	-4	-10	-9	58
France tour operators		+15	-27	-37	-33	70
Other ³		+3	-1	-4	Flat	
Total Mainstream		+5	-4	-8	-4	60
Total Mainstream (excl France tour operators)		+4	-2	-6	-2	
Accommodation Wholesaler⁴		+1	+24	+23		

¹ These statistics are up to 1 December 2013 and are shown on a constant currency basis

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

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

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

Summer 2014

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

Fuel / Foreign exchange

We have hedged the majority of our fuel and currency requirements for the seasons currently on sale, which gives us certainty of costs when planning capacity and pricing. The following table shows the percentage of our forecast requirement that is currently hedged for Euros, US Dollars and jet fuel.

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

Outlook

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

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

BUSINESS AND FINANCIAL REVIEW

Group Performance

Year ended 30 September

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

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

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

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

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

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

Underlying operating profit improved by £65m to £555m in 2013, on a constant currency basis.

The improvement in operating profit was driven by strong performances in the UK, Germany and Nordic region as well as the delivery of £46m cost savings through the business improvement programme.

These cost savings were primarily driven by back office restructuring and IT platform replacement across a number of markets. However, these positive results were partially offset by weakness in our French tour operator and Specialist & Activity Sector.

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

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

Segmental Performance

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

Mainstream

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

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

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

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

UK

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

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

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

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

Nordics

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

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

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

Germany

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

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

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

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

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

France

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

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

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

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

The Airline result significantly improved from the prior year, moving very close to a breakeven position. The turnaround was driven by changes to the fleet composition, which saw two new A330-300 aircraft arriving during the period. A smaller, more flexible fleet will help to reduce risk within the programme. In addition to this, significant improvements were made to the customer experience with increased

customer service standards. The restructuring programme in the French airline is now complete with £12m of efficiency savings towards the business improvement programme delivered in the period.

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

Other

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

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

Emerging Markets

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

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

Accommodation & Destinations

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

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

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

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

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

Online Accommodation

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

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

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

Inbound Services

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

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

Specialist & Activity

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

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

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

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

Fleet

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

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

Acquisitions & Investments

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

Net financial expenses

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

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

Separately disclosed items (SDIs)

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

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

The separately disclosed items expense includes the following items:

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

Further information is included within Note 3.

Goodwill impairment charge

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

Further information is included within Note 8.

Taxation

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

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

The cash tax rate is expected to be lower than the underlying income tax rate as we utilise our deferred tax assets generated from restructuring expenditure and trading losses. During the year, the Group paid £14m of UK cash corporation tax and a further £96m of cash corporate taxes in other jurisdictions. In the coming year, we envisage a cash tax rate of approximately 20% of underlying profit before tax.

In October 2013, the Group reached agreement on the terms to settle a tax audit with the Spanish tax authorities. Further information is included within Note 6.

Earnings per share

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

Dividends

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

The Group has a progressive dividend policy, with the growth in dividends to move in line with underlying profits. We intend to continue to operate a dividend re-investment plan as an alternative to receiving a cash dividend.

Cash and liquidity

The net cash position (cash and cash equivalents less loans, overdrafts and finance leases) at 30 September 2013 was £2m (30 September 2012: net debt of £142m). This excludes restricted cash of £145m (2012: £34m). The increase in restricted cash is primarily due to receipt of £98m from the Belgian government in relation to disputed VAT in a long-running court case. Further information is included in Note 9.

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

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

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

¹ Earnings before interest, tax, depreciation and amortisation

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

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

Consolidated income statement
for the year ended 30 September 2013

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Revenue	2	15,051	14,460
Cost of sales		(13,395)	(12,965)
Gross profit		1,656	1,495
Administrative expenses		(1,376)	(1,199)
Share of profits of joint ventures and associates		17	5
Operating profit		297	301
<i>Analysed as:</i>			
Underlying operating profit	2	589	490
Separately disclosed items	3	(24)	(92)
Acquisition related expenses		(65)	(62)
Impairment of goodwill	8	(188)	(20)
Impairment of available for sale financial asset		-	(10)
Taxation on profits and interest of joint ventures and associates		(15)	(5)
Total operating profit		297	301
Financial income	4	86	96
Financial expenses	4	(202)	(196)
Net financial expenses		(116)	(100)
Profit before tax		181	201
Taxation charge	6	(118)	(64)
Profit for the year		63	137
<i>Attributable to:</i>			
Equity holders of the parent		60	138
Non-controlling interests		3	(1)
Profit for the year		63	137
	Note	Year ended 30 September 2013 Pence	Year ended 30 September 2012 Pence
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year			
Basic earnings per share	12	5.4	12.5
Diluted earnings per share	12	5.4	12.3

Consolidated statement of comprehensive income
for the year ended 30 September 2013

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Profit for the year	63	137
Other comprehensive (loss) / income		
Items that will not be reclassified to profit and loss:		
Actuarial losses arising in respect of defined benefit pension schemes	(23)	(172)
Tax on actuarial losses	(11)	32
Items that will not be reclassified to profit and loss	(34)	(140)
Items that may be subsequently reclassified to profit and loss:		
Foreign exchange translation	44	(160)
Foreign exchange gains recycled through the consolidated income statement	(1)	-
Cash flow hedges:		
- movement in fair value	(76)	(42)
- amounts recycled to the consolidated income statement	(5)	(30)
Tax on cash flow hedges	22	15
Available for sale financial assets:		
- movement in fair value	1	(4)
- amounts recycled to the consolidated income statement	-	10
Items that may be subsequently reclassified to profit and loss	(15)	(211)
Other comprehensive loss for the year net of tax	(49)	(351)
Total comprehensive income/(loss) for the year	14	(214)
Total comprehensive income/(loss) for the year		
<i>Attributable to:</i>		
Equity holders of the parent	15	(211)
Non-controlling interests	(1)	(3)
Total	14	(214)

Consolidated balance sheet
at 30 September 2013

	Note	30 September 2013 £m	30 September 2012 £m
Non-current assets			
Intangible assets	8	4,384	4,482
Property, plant and equipment		1,238	1,096
Investments in joint ventures and associates		243	258
Other investments		36	66
Trade and other receivables		205	225
Derivative financial instruments		3	21
Deferred tax assets		168	125
		6,277	6,273
Current assets			
Inventories		57	61
Other investments	10	36	19
Trade and other receivables		1,331	1,312
Income tax recoverable		24	15
Derivative financial instruments		41	98
Cash and cash equivalents	9	1,753	830
Assets classified as held for sale		10	13
		3,252	2,348
Total assets		9,529	8,621
Current liabilities			
Interest-bearing loans and borrowings		(594)	(70)
Retirement benefits		(3)	(2)
Derivative financial instruments		(147)	(125)
Trade and other payables		(4,773)	(4,549)
Provisions for liabilities		(277)	(300)
Income tax payable		(76)	(39)
		(5,870)	(5,085)
Non-current liabilities			
Interest-bearing loans and borrowings		(1,012)	(868)
Retirement benefits		(658)	(646)
Derivative financial instruments		(26)	(20)
Trade and other payables		(79)	(48)
Provisions for liabilities		(362)	(316)
Deferred tax liabilities		(31)	(29)
		(2,168)	(1,927)
Total liabilities		(8,038)	(7,012)
Net assets		1,491	1,609
Equity			
Called up share capital		112	112
Convertible bond reserve		91	88
Other reserves		2,625	2,627
Accumulated losses		(1,378)	(1,262)
Total equity attributable to equity holders of the parent		1,450	1,565
Non-controlling interests		41	44
Total equity		1,491	1,609

The financial statements were approved by a duly authorised Committee of the Board of Directors on 9 December 2013 and signed on its behalf by:

Peter J Long
Chief Executive

Company number: 6072876

William H Waggett
Chief Financial Officer

Consolidated statement of changes in equity

	Called up share capital £m	Convertible bond reserve £m	Merger reserve £m	Translation reserve £m	Hedging reserve £m	Accumulated losses £m	Equity holders of parent £m	Non-controlling interests £m	Total equity £m
At 1 October 2011	112	85	2,523	286	37	(1,155)	1,888	50	1,938
Profit for the year	-	-	-	-	-	138	138	(1)	137
Other comprehensive loss for the year	-	-	-	(157)	(62)	(130)	(349)	(2)	(351)
Total comprehensive (loss) / income for the year	-	-	-	(157)	(62)	8	(211)	(3)	(214)

Transactions with owners

Share-based payment charge for the year	-	-	-	-	-	16	16	-	16
Share-based payment disposal on award of shares	-	-	-	-	-	(5)	(5)	-	(5)
Dividends	-	-	-	-	-	(125)	(125)	(3)	(128)
Acquisition of non-controlling interests	-	-	-	-	-	(1)	(1)	-	(1)
Change in deferred tax rate on equity portion of convertible bond	-	3	-	-	-	-	3	-	3
At 30 September 2012	112	88	2,523	129	(25)	(1,262)	1,565	44	1,609

	Called up share capital £m	Convertible bond reserve £m	Merger reserve £m	Translation reserve £m	Hedging reserve £m	Accumulated losses £m	Equity holders of parent £m	Non-controlling interests £m	Total equity £m
At 1 October 2012	112	88	2,523	129	(25)	(1,262)	1,565	44	1,609
Profit for the year	-	-	-	-	-	60	60	3	63
Other comprehensive income/(loss) for the year	-	-	-	56	(58)	(43)	(45)	(4)	(49)
Total comprehensive income/(loss) for the year	-	-	-	56	(58)	17	15	(1)	14

Transactions with owners

Share-based payment charge for the year	-	-	-	-	-	15	15	-	15
Share-based payment disposal on award of shares	-	-	-	-	-	(16)	(16)	-	(16)
Dividends	-	-	-	-	-	(130)	(130)	(2)	(132)
Acquisitions of non-controlling interests	-	-	-	-	-	(2)	(2)	-	(2)
Change in deferred tax rate on equity portion of convertible bond	-	3	-	-	-	-	3	-	3
At 30 September 2013	112	91	2,523	185	(83)	(1,378)	1,450	41	1,491

Consolidated statement of cash flows
for the year ended 30 September 2013

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Profit for the year		63	137
Adjustment for:			
Depreciation and amortisation		248	219
Impairment of intangible assets and property, plant and equipment		14	22
Impairment of goodwill	8	188	20
Equity-settled share-based payment expenses		15	16
Profit on sale of property, plant and equipment	5	(10)	(9)
Share of profit of joint ventures and associates		(17)	(5)
(Profit) / loss on foreign exchange	5	(19)	14
Impairment of available for sale financial asset		-	10
Change in value of assets held at fair value through profit and loss		(5)	-
Dividends received from joint ventures and associates		43	4
Pension curtailment and settlement gain recognised in consolidated income statement		(25)	(1)
Financial income	4	(86)	(96)
Financial expenses	4	202	196
Taxation	6	118	64
Operating cash flow before changes in working capital and provisions		729	591
Decrease in inventories		3	17
Decrease/(increase) in trade and other receivables		63	(55)
Increase in trade and other payables		59	126
Belgian VAT receipt	9	98	-
Increase/(decrease) in provisions and retirement benefits		11	(35)
Cash flows generated from operations		963	644
Interest paid		(90)	(75)
Interest received		19	15
Income taxes paid		(110)	(82)
Cash flows generated from operating activities		782	502
Investing activities			
Proceeds from sale of property, plant and equipment		192	116
Acquisition of subsidiaries net of cash acquired		(10)	(23)
Proceeds from other investments		-	1
Investment in joint ventures, associates and other investments		(41)	(25)
Acquisition of property, plant and equipment		(311)	(287)
Acquisition of intangible assets		(102)	(91)
Cash flows used in investing activities		(272)	(309)
Financing activities			
Proceeds from new loans and deposits taken		82	14
Repayment of borrowings		(44)	(43)
Repayment of finance lease liabilities		(26)	(19)
Dividends paid to ordinary and non-controlling interests		(132)	(128)
Cash flows used in financing activities		(120)	(176)
Net increase in cash and cash equivalents		390	17
Cash and cash equivalents at start of the year	9	830	902
Non-cash movement in bank overdrafts	9	491	-
Effect of foreign exchange on cash held		42	(89)
Cash and cash equivalents at end of the year	9	1,753	830

Movements in cash and net debt are presented in Note 11.

Cash flows generated from operating activities are analysed as follows:

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Cash flows generated from underlying operating activities		684	502
Belgian VAT receipt	9	98	-
Total cash flows generated from operating activities		782	502

Notes to the consolidated financial statements

1. Basis of preparation

(A) Statutory accounts

The financial information set out above does not constitute the Group's statutory accounts for the year ended 30 September 2013. Financial statements for the year ended 30 September 2013 will be delivered to the registrar of companies in due course. PricewaterhouseCoopers LLP has reported on these accounts and their report was (i) unqualified, (ii) did not include a reference to any other matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

(B) Accounting policies

The accounting policies applied by the Group in its consolidated financial statements for the year ended 30 September 2013 are in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union (Adopted IFRSs) and the Companies Act 2006 applicable to companies reporting under IFRS. The accounting policies are consistent with those of the consolidated financial statements for the year ended 30 September 2012 except for the adoption of the amendment to IAS 1 'Presentation of financial statements on OCI' that is applicable for the year ended 30 September 2013. This amended standard has no impact on the consolidated results or financial position.

(C) Underlying measures of profits and losses

The Group believes that underlying operating profit, underlying profit before tax and underlying earnings per share provide additional guidance to statutory measures to help understand the underlying performance of the business during the financial year. The term underlying is not defined under IFRS. It is a measure that is used by management to assess the underlying performance of the business internally and is not intended to be a substitute measure for adopted IFRS GAAP measures. The Group defines these underlying measures as follows:

Underlying operating profit is operating profit from continuing operations stated before separately disclosed items, acquisition related expenses, impairment of goodwill and available for sale financial assets and interest and taxation on the Group's share of the results of joint ventures and associates.

Underlying profit before tax is profit from continuing operations before taxation, acquisition related expenses, impairment of goodwill and available for sale financial assets, interest and taxation of joint ventures and associates and separately disclosed items included within the operating result.

Underlying earnings used in the calculation of underlying earnings per share is profit after tax from continuing operations excluding acquisition related expenses, impairment of goodwill and available for sale financial assets and separately disclosed items included within the operating result. For the purpose of this calculation, an underlying tax charge is used which excludes the tax effects of separately disclosed items, acquisition related expenses, goodwill and available for sale financial asset impairment charges and separately disclosed tax items.

It should be noted that the definitions of underlying items are those used by the Group and may not be comparable with the term 'underlying' as defined by other companies within both the same sector or elsewhere.

(D) Funding and liquidity

The Board remains satisfied with the Group's funding and liquidity position. At 30 September 2013, the main sources of debt funding included:

- a total of £1,120m bank revolving credit facilities which mature in June 2015;
- £185m of bonding and letter of credit facilities which mature in June 2015;
- £350m convertible bond due October 2014;
- £400m convertible bond due April 2017;
- £300m bank syndicated facility which matures in April 2016 and which is only available in the event of a requirement to redeem the Group's convertible bonds; and
- £275m of drawn finance lease obligations with repayments up to March 2023.

The ratio of earnings before interest, taxation, depreciation, amortisation and operating lease rentals (EBITDAR) to fixed charges (being the aggregate amount of interest and any other finance charges in respect of borrowings and including all payments under operating leases) and the ratio of net debt to earnings before interest, taxation, depreciation and amortisation (EBITDA), which the Board believes to be the most useful measures of cash generation and gearing, as well as being the main basis for the Group's credit facility covenants, are well within the covenant limits at the date of the balance sheet. Forecasts reviewed by the Board, including forecasts adjusted for significantly worse economic conditions, show continued compliance with these covenants. For both covenants, earnings are calculated on an underlying basis as described above.

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.

2. Segmental information

IFRS 8 requires segmental information to be presented on the same basis as that used for internal management reporting. Segmental information is reported by the Group's business sectors to the Group Management Board (GMB). The GMB consists of tour operating and functional experts drawn from across the Group who execute TUI Travel's day-to-day operations, allocate resources to and assess the performance of the operating segments. Consequently, the GMB is considered to be the chief operating decision maker for the purposes of IFRS 8.

Group structure

The Group presents segmental information in respect of its Sectors. As disclosed in the Group's 2012 Annual Report & Accounts, with effect from 1 October 2012, the businesses within our Mainstream Sector are reported via each key source market instead of regionally. Emerging Markets remains outside of the Mainstream Sector for internal management reporting purposes and is reported separately.

The Mainstream Sector consists of the following source markets: UK & Ireland, Germany, France, Corsair, the Nordic countries, Canada, Belgium & Morocco, the Netherlands, Austria, Switzerland, Poland, Southern Europe and the Hotels division (comprising hotel management companies and joint ventures in hotel assets). Each source market represents an individual operating segment. Aggregation criteria is then used to combine certain of these operating segments into reported segments.

The Specialist & Activity Sector operates under six divisions: Adventure, Education, Marine, North American Specialist, Sport and Specialist Holidays Group. The Sector has over 100 international specialist and activity brands delivering a range of unique customer experiences. The Specialist & Activity Sector is considered to be one operating segment, in line with internal management reporting.

The Accommodation & Destinations (A&D) Sector provides a range of services in destinations to tour operators, travel agents, corporate clients and direct to the consumer worldwide. A&D consists of Online Accommodation (comprising Accommodation Wholesaler and Accommodation OTA) and Inbound Services. The A&D Sector in total is considered as one operating segment, in line with internal management reporting.

The Emerging Markets Sector is a growing portfolio of travel businesses in the source markets of Russia, the Ukraine, India and China and is considered to be one operating segment.

Reportable and reported segments

The results of the UK & Ireland, Germany, Nordics and the French tour operator are reported separately due to the size and importance of these source markets and which meet the threshold for being individual reportable segments. The results for the French scheduled airline, Corsair, are shown separately to that of the French tour operator as it has a different business model to the rest of the Group's integrated tour operators. All of the other Mainstream Sectors, except for the Hotels division, meet the aggregation criteria set out in IFRS 8 and are reported as one segment, the Rest of Mainstream. All of the aggregated businesses are considered to be similar in nature and economically similar over the long term. The Hotels division is reported separately as this does not meet the aggregation criteria of IFRS 8.

Emerging Markets, the Specialist & Activity and A&D Sectors are all reported as separate Sector totals as this is consistent with internal management reports.

All reportable segments derive their revenues from the sale of leisure travel and ancillary services. Segmental information for both the current and prior year has been presented using this structure, with the prior year's information being restated. Corporate costs are in respect of central costs including finance, human resources, legal, facility costs and some information technology costs that do not relate to each business segment and hence are not allocated.

Information regarding the results of each reportable segment is provided below. Segmental performance is evaluated based on underlying operating profit and is measured consistently with underlying operating profit or loss as defined in Note 1. Inter-segmental sales and transfers reflect arm's length prices as if sold or transferred to third parties. Financial income and expenses are not allocated to the reportable segments as this activity is managed by the Group's treasury function which manages the overall net cash/debt position of the Group. No one customer exceeds 10% of entity revenues in any segment. Goodwill impairment losses arising are detailed in Note 8.

Segmental analysis
Year ended 30 September 2013

Sector	Total revenue £m	Inter-segmental revenue £m	Total external revenue £m	Underlying operating profit / (loss) £m
UK & Ireland	4,007	(128)	3,879	251
Germany	4,187	(26)	4,161	113
Nordics	1,223	-	1,223	79
French tour operator	706	-	706	(59)
French airline	408	(37)	371	(1)
Hotels	214	(160)	54	6
Rest of Mainstream	2,564	(90)	2,474	125
Total Mainstream	13,309	(441)	12,868	514
Specialist & Activity	1,437	(4)	1,433	41
Accommodation & Destinations	960	(210)	750	78
Emerging Markets	-	-	-	(12)
All other segments and unallocated items	-	-	-	(32)
Total Group	15,706	(655)	15,051	589

Year ended 30 September 2012

Sector	Total revenue (restated) £m	Inter-segmental revenue (restated) £m	Total external revenue (restated) £m	Underlying operating profit / (loss) (restated) £m
UK & Ireland	3,756	(122)	3,634	197
Germany	3,932	(15)	3,917	87
Nordics	1,085	(1)	1,084	71
French tour operator	903	-	903	(32)
French airline	403	(43)	360	(15)
Hotels	191	(166)	25	6
Rest of Mainstream	2,469	(74)	2,395	106
Total Mainstream	12,739	(421)	12,318	420
Specialist & Activity	1,479	(1)	1,478	48
Accommodation & Destinations	859	(195)	664	66
Emerging Markets	-	-	-	(15)
All other segments and unallocated items	-	-	-	(29)
Total Group	15,077	(617)	14,460	490

Reconciliation of Group underlying operating profit to profit before tax

	Note	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Group underlying operating profit		589	490
Separately disclosed items	3	(24)	(92)
Acquisition related expenses		(65)	(62)
Impairment of goodwill	8	(188)	(20)
Impairment of available for sale financial asset		-	(10)
Taxation on profits and interest of joint ventures and associates		(15)	(5)
Operating profit		297	301
Net financial expenses	4	(116)	(100)
Profit before tax		181	201

3. Separately disclosed items

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Restructuring and other separately disclosed items	59	102
Aircraft and other assets	(23)	-
Pension related credit	(25)	-
Litigation provisions	13	17
Change in accounting estimates	-	(27)
Total	24	92

Separately disclosed items within operating profit are included within the consolidated income statement as follows:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Revenue	1	-
Cost of sales	4	-
Administrative expenses	19	92
Total	24	92

Restructuring and other separately disclosed items

The overall charge of £59m includes £54m of restructuring costs. £29m of the restructuring costs arise in the Mainstream business, with £25m occurring in France from the ongoing restructure of the tour operator and the airline. In particular, a £19m charge has been taken in the final quarter of the year as a result of a voluntary redundancy programme being announced in the French tour operator, to reduce overhead costs further given the difficult trading environment it is experiencing at present.

There has been a total of £18m of restructuring costs incurred in the Specialist & Activity Sector in the current financial year due to the removal of the Sector management team, the closure of a business in the Education division, further restructuring of the PEAK adventure business based in Melbourne, Australia and rationalisation of overseas bases in the Marine division. Within the Accommodation & Destinations Sector, £7m of restructuring costs have arisen due to several programmes aimed at rationalising the business structure and moving to a number of regional shared service centres in Europe, Asia and the Americas.

In addition to these restructuring costs, the most significant other item is a £4m charge due to the change in value of unhedged foreign currency derivative instruments relating to future seasons.

Included in the year ended 30 September 2012 were Mainstream restructuring costs of £66m which principally related to: the restructuring programmes in the French tour operator and airline, being £66m in total; the £5m restructure of the Moroccan airline, Jet4You; and offset by a £7m release of unused provision in the German tour operator. In addition, a total of £24m restructuring costs were incurred across the Specialist & Activity and Accommodation & Destinations Sectors. £8m of this total arose from restructuring actions taken in the Adventure division; £6m arose from the write-down of specific ski chalet assets; £4m arose from actions taken in the Marine division; and £3m from the finalisation of restructuring programmes in Greece, Morocco and Tunisia. A total of £12m of costs were incurred in Group head office companies, being primarily to support the various restructuring programmes around the Group.

Aircraft and other assets

During the year ended 30 September 2013, a total credit of £18m has been recognised which arises from various aircraft transactions. Significantly, this is the first year in which the Group has incurred costs to enable a new type of aircraft, the Boeing 787 Dreamliner, to be brought into service. As part of the funding of these costs, the Group is entitled to certain credits which in some cases are taken directly to the income statement and in others are used to offset against the cost of each aircraft. These are therefore reported as sale and leaseback profits in the income statement when the aircraft is delivered

and the sale and leaseback transaction is executed. The entry into service costs, the associated credits and sale and leaseback profits have all been included in separately disclosed items due to the size and nature of the items and the imperfect matching between costs being incurred and credits being recognised in the income statement. Entry into service costs will continue to be incurred in the next financial year as further Boeing 787 deliveries occur and more aircraft are brought into service.

In addition to the aircraft items, a credit of £5m has been recognised from uplifting the value of the Group's total investment in The Airline Group Limited to reflect the fair value agreed under the terms of the disposal agreement announced on 19 November 2013.

Pension related credit

In the Netherlands, the management and Works Council of TUI Nederland NV agreed to close the existing defined benefit pension scheme and replace it with a defined contribution scheme. This change is classified as a curtailment under IAS 19 and the resultant reduction in accrued pension liabilities of £14m has been recognised in the income statement in the period in which it occurred.

The management of TUI Nederland NV and the pension scheme trustees also agreed to transfer the existing pension fund assets and liabilities to AEGON, a multinational life insurance, pensions and asset management company headquartered in the Netherlands. This transfer of the pension assets and liabilities has been approved by the Dutch pension regulator and has now been accounted for, generating a further credit in the income statement of £11m.

Litigation provisions

At the year end the Group has continued to assess the likely outcome of the legal actions in which it is involved and, in accordance with IAS 37, has recognised provisions where it is more likely than not that an outflow of resources will be required to settle the obligation. This year the process has resulted in a charge to the income statement of £13m (€15m) in respect of the penalties agreed with the Spanish tax authorities on 11 October 2013 under the terms of the settlement reached (Note 6).

In the year ended 30 September 2012, the Group's assessment of the likely outcome of the legal actions in which it was then involved resulted in a charge to the income statement of £17m.

Change in accounting estimates

During the year ended 30 September 2012, the Group reviewed the estimates used in calculating aircraft maintenance provisions and empty leg provisions to ensure consistency of application of the latest estimates across the Group. This process resulted in a credit to the income statement of £27m, which due to its size was included as a separately disclosed item.

4. Net financial expenses

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Financial income		
Bank interest receivable	19	15
Interest on pension scheme assets	67	72
Other financial income	-	9
Total	86	96
Financial expenses		
Bank interest payable on loans and overdrafts	(23)	(19)
Finance charges on convertible bond	(63)	(62)
Interest on pension scheme liabilities	(81)	(86)
Interest payable on shareholder loans	-	(2)
Finance lease charges and interest on debt financed aircraft	(12)	(7)
Unwinding of discount on provisions	(5)	(8)
Facility fees	(13)	(12)
Other financial expenses	(5)	-
Total	(202)	(196)
Net financial expenses	(116)	(100)

5. Operating profit

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Included within operating profit in the consolidated income statement for the year are the following (credits)/ charges:		
Operating lease income: aircraft	(40)	(47)
Operating lease income: land and buildings	(2)	(2)
Operating lease rentals: land and buildings, aircraft and other equipment	604	619
Depreciation of property, plant and equipment	157	127
Amortisation of intangible assets: business combination intangibles	57	59
Amortisation of intangible assets: other intangibles	34	33
Charge for share-based payments	17	17
Profit on sale of property, plant and equipment	(10)	(9)
(Profit)/loss on foreign currency retranslation	(19)	14
Impairment of goodwill and other intangibles	199	30
Impairment of property, plant and equipment	3	12

6. Taxation

The tax charge can be summarised as follows:

i) Analysis of charge in the year

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Current tax charge		
UK corporation tax on profit for the year	6	-
Non-UK tax on profit / loss for the year	92	70
Adjustments in respect of previous years	45	(42)
	143	28
Deferred tax charge / (credit)		
Origination and reversal of temporary differences:		
Current year UK	9	21
Current year non-UK	7	9
Changes in tax rates	4	11
Adjustments in respect of previous years	(45)	(5)
	(25)	36
Total income tax charge in consolidated income statement	118	64

Following a review of the local tax positions in a number of the Group's major operating jurisdictions during the year, certain tax balances have been adjusted to reflect the position of the latest local statutory accounts and tax returns. These adjustments in respect of prior years have been reflected in the current year income statement tax charge.

ii) Reconciliation of effective tax rate

The total tax charge (2012: charge) for the year is higher (2012: higher) than the standard rate of corporation tax in the UK of 23.5% (2012: 25%). The differences are explained below:

	Year ended 30 September 2013		Year ended 30 September 2012	
	£m	%	£m	%
Profit before tax reported in the consolidated income statement	181		201	
Less share of profit in joint ventures and associates	(17)		(5)	
	164		196	
Income tax on profit before tax excluding share of profit of joint ventures and associates at the standard rate of UK tax of 23.5% (2012: 25%)	39	24	49	25
Expenses not deductible for tax purposes	51	31	23	12
Income not taxable	(10)	(6)	(10)	(5)
Tax losses not recognised as an asset	33	20	38	19
Utilisation of tax losses not previously recognised	(7)	(4)	(4)	(2)
Higher tax rates on overseas earnings / losses	8	5	3	2
Changes in tax rates	4	2	12	6
Adjustments to taxation in respect of previous years	-	-	(47)	(24)
Total income tax charge in consolidated income statement	118	72	64	33

The underlying effective rate of taxation for the year ended 30 September 2013 is calculated based on the underlying profit before tax (excluding separately disclosed items, acquisition related expenses and impairment charges) and is calculated at 27%. The actual tax rate of 72% differs from the underlying effective tax rate primarily due to the tax effect of the non-recognition of tax losses in France and goodwill impairment charges of £188m on which no tax deduction is available.

iii) Spanish tax case

In the Group's financial statements for 2010, 2011 and 2012, it was disclosed that the Spanish tax authorities were contesting the Spanish corporate income tax treatment of two transactions undertaken by two of the Group's Spanish subsidiary companies during the period 2002 to 2006. Throughout the tax audit process, the Group has engaged fully and openly with the Spanish tax authorities and has supplied considerable documentary support and Spanish technical tax analysis to explain the commercial and economic rationale and Spanish corporate income tax treatment for the transactions. These transactions were implemented after the Group had taken specialist external advice.

On 11 October 2013 agreement was reached on the terms of a settlement with the Spanish tax authorities. The total of tax, interest and penalties totals €50m. The disputed tax of €30m has been lodged with the authorities in earlier financial years whilst the case was progressing, meaning that the settlement involves a further payment of interest and penalties totalling €20m. The tax (€30m) and interest (€5m) amounts have been provided in previous years within tax charges and financial expenses respectively, whilst the penalties of €15m (£13m) have been accrued within administrative expenses in the year ended 30 September 2013 and included within separately disclosed items (Note 3).

7. Dividends

The following dividends which relate to the Company's ordinary shares have been deducted from equity in the year:

	Pence per share	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Dividends relating to the year ended 30 September 2011			
Interim dividend (paid October 2011)	3.3	-	36
Final dividend (paid April 2012)	8.0	-	89
	11.3	-	125
Dividends relating to the year ended 30 September 2012			
Interim dividend (paid October 2012)	3.4	38	-
Final dividend (paid April 2013)	8.3	92	-
	11.7	130	-

The interim dividend in respect of the year ended 30 September 2013 of 3.75p per share was paid on 4 October 2013 and this dividend of £42m will be recognised as a deduction from equity in the year ending 30 September 2014.

Subsequent to the balance sheet date, the Directors have proposed a final dividend of 9.75p per share (2012: final dividend of 8.3p per share) payable on 9 April 2014 to the holders of relevant shares on the register at 7 March 2014. The final proposed dividend amounts to £108m and will, after approval by shareholders, be recognised in the consolidated financial statements for the year ending 30 September 2014. The final ordinary dividend of 9.75p per share, together with the interim dividend of 3.75p per share, makes a total dividend of 13.5p per share relating to the year ended 30 September 2013.

A dividend reinvestment plan is in operation. Those shareholders who have not elected to participate in this plan, and who would like to participate with respect to the 2013 final dividend, may do so by contacting Equiniti directly on 0871 384 2030 or via the overseas helpline on +44 121 415 7047. The last day for election for the final proposed dividend is 19 March 2014 and any requests should be made in good time ahead of that date.

8. Goodwill impairment

The total impairment loss recognised in the year of £188m is equal to the difference between the net book values and the recoverable amounts of each cash generating unit (CGU) and is analysed as follows:

Sector / reportable segment	CGU	Goodwill impairment charge 2013 £m
Mainstream - France	France	59
Specialist & Activity	Marine	39
Specialist & Activity	Sport	26
Specialist & Activity	Experience Education	22
Specialist & Activity	North America Education	22
Mainstream - Southern Europe	Italy	9
Mainstream - Southern Europe	Spain	1
Goodwill impairment charge arising from the annual impairment test		178
Goodwill impairment charge recognised on closure of businesses		10
Total goodwill impairment charges recognised in the year		188

All of the impairment charges arising from the Group's annual impairment test, which total £178m, have arisen as a result of a deterioration in forecast trading results compared to the prior year.

The French tour operating business has suffered an impairment of £59m due to the continued downturn in the French economy and the difficult trading environment caused by the ongoing political unrest and violence in what has traditionally been the popular North African destinations for the French market.

£109m of the impairment charge has arisen from businesses within the Specialist & Activity Sector. Following the removal of the sector management team at the start of the financial year, these businesses have been subjected to a thorough and detailed review with the consequence that the latest assessment of their future profitability is lower than anticipated in the prior year.

A further £10m goodwill impairment was recognised in the first half of the financial year in respect of two small businesses within the Specialist & Activity Sector that were identified as non-core to the Group, which are in the process of being wound down, thereby providing an indication that the goodwill attached to those businesses is no longer supportable. As such, all of the goodwill relating to these businesses has been fully impaired.

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.

9. Cash and cash equivalents

	30 September 2013 £m	30 September 2012 £m
Cash in hand	6	21
Cash at bank	920	265
Deposits	827	544
Cash and cash equivalents	1,753	830

For the year ended 30 September 2013, cash and cash equivalents have been shown gross of specific overdraft balances within the Group's pooling facilities where the Group does not currently have the intention to exercise its right to settle these particular balances simultaneously. The amount of cash balances presented gross of the related overdraft position is £491m. In the year ended 30 September 2012, the Group had both the contractual right as well as the intention to settle these balances on a net basis and therefore the related overdraft and cash balances were presented on a net basis.

Cash and cash equivalents includes £47m (2012: £34m) that is not available for immediate use by the Group. This is made up of monies held to meet regulatory requirements, together with cash balances on short term deposits, held on a restricted basis by the Group's captive insurance funds as part of their ongoing operations.

In addition to the above restricted cash balances, the Group is involved in a long-running VAT case with the Belgian government. During the current financial year a total of £98m has been received from the Belgian government in relation to the disputed VAT for the years up to and including 30 September 2011, to stop the interest charge from accumulating should they lose the case eventually. The outcome of the case remains uncertain and is not expected to be finalised in the near future. Given the uncertainty, the Group continues to accrue VAT payable on the existing basis. If the Group were to win the legal case, the amount recovered would be subject to corporation tax in Belgium. This money is currently held on a bank deposit account in order that a collateralised bank guarantee can be provided to the Belgian government for the duration of the legal proceedings to give them assurance that they will be paid the money back should they win the case. This receipt is shown in the consolidated statement of cash flows as the item fulfils the IAS 7 criteria for cash and cash equivalents and therefore the balance is included in cash and cash equivalents. In view of the guarantee provided to the Belgian Government, the Group's ability to use this cash is restricted.

10. Other investments

	30 September 2013 £m	30 September 2012 £m
Trade investments	30	-
Regulatory deposits with a term exceeding 3 months	5	17
Other deposits with a term exceeding 3 months	1	2
Other investments	36	19

Trade investments of £30m (2012: £nil) represents the portion of the Group's shareholding in The Airline Group Limited which is in the process of being disposed. During the year the Group revalued its 14.3% shareholding in The Airline Group Limited (which in turn has a 42% shareholding in NATS Holdings Limited) upwards by £5m to fair value through profit and loss with the credit being included in separately disclosed items (Note 3). The basis of valuation was the offer received during the year for the majority of this investment. In view of the impending disposal of 87.4% of this investment, the element being disposed has been reclassified as a current asset investment.

11. Movements in cash and net debt and cash conversion

i) Movements in cash and net debt

	Cash and cash equivalent £m	Convertible bonds £m	Amounts due to related parties £m	Bank loans and overdrafts £m	Loan notes £m	Finance leases £m	Other financial liabilities £m	Total £m	Restricted cash £m	Available net (debt)/cash £m
At 1 October 2011	902	(654)	(36)	(30)	(1)	(132)	(45)	4	(46)	(42)
Cash movement	17	-	23	5	-	19	1	65	12	77
Non-cash movement	-	(21)	-	-	-	(83)	(3)	(107)	-	(107)
Foreign exchange	(89)	-	3	2	-	10	4	(70)	-	(70)
At 30 September 2012	830	(675)	(10)	(23)	(1)	(186)	(43)	(108)	(34)	(142)
Cash movement	390	-	1	(41)	-	26	2	378	(111)	267
Non-cash movement	491	(22)	9	(524)	-	(113)	(1)	(160)	-	(160)
Foreign exchange	42	-	-	(1)	-	(2)	(2)	37	-	37
At 30 September 2013	1,753	(697)	-	(589)	(1)	(275)	(44)	147	(145)	2

Cash and cash equivalents includes £145m (2012: £34m) of restricted cash.

The 2013 non-cash movement of £22m (2012: £21m) per annum in convertible bonds primarily relates to the accretion of the equity portion of the convertible bonds.

The 2013 non-cash movement of £491m (2012: £nil) between cash and cash equivalents and bank loans and overdrafts reflects the impact of specific overdraft balances being presented on a gross basis. Other non-cash movements in 2013 within bank loans and overdrafts and finance leases predominantly relate to advances in respect of additions to property, plant and equipment.

ii) 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. '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:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Underlying operating profit	589	490
Net financial expense	(116)	(100)
Underlying profit before tax	473	390
 Movement in available cash net of debt	 267	 77
Add:		
Dividends paid to ordinary and non-controlling interests	132	128
Acquisition of subsidiaries net of cash acquired	10	23
Investment in joint ventures, associates and other investments	14	25
Net pre-delivery payments for aircraft	4	53
Proceeds from other investments	-	(1)
Free cash flow	427	305
 Cash conversion	 90%	 78%

The 2012 figures have been restated to exclude:

- i) contractually required net pre-delivery payments for aircraft; and
- ii) restricted cash

from the movement in available cash as management considers this to be a better measure of performance in respect of free cash flows.

12. Earnings per share

The basic earnings per share is calculated by dividing the result attributable to ordinary shareholders by the applicable weighted average number of shares in issue during the year, excluding those held in the Employee Benefit Trust. The diluted earnings per share is calculated on the result attributable to ordinary shareholders divided by the adjusted potential weighted average number of ordinary shares, which takes account of the outstanding share awards and the impact of the conversion of the convertible bonds, where their conversion is dilutive. The additional underlying earnings per share measures have been presented to provide the reader of the accounts with a better understanding of the results.

Basic and diluted earnings per share are as follows:

	Earnings 2013 £m	Weighted average no. of shares 2013 Millions	Earnings per share 2013 Pence	Earnings 2012 £m	Weighted average no. of shares 2012 Millions	Earnings per share 2012 Pence
Basic earnings per share	60	1,110	5.4	138	1,108	12.5
Effect of dilutive options	-	8	-	-	10	-
Diluted earnings per share	60	1,118	5.4	138	1,118	12.3

For the statutory measure of diluted earnings per share, the effects of including the convertible bonds are anti-dilutive in both years and therefore this is not included within the calculation.

Alternative measures of earnings per share

	Earnings 2013 £m	Weighted average no. of shares 2013 Millions	Earnings per share 2013 Pence	Earnings 2012 £m	Weighted average no. of shares 2012 Millions	Earnings per share 2012 Pence
Basic earnings per share	60	1,110	5.4	138	1,108	12.5
Acquisition related expenses and impairments	253	-		92	-	
Separately disclosed items	24	-		92	-	
Tax base difference	5	-		(36)	-	
Basic underlying earnings per share	342	1,110	30.8	286	1,108	25.8
Effect of dilutive options	-	8		-	10	
Effect of convertible bond (net of tax)	49	205		47	205	
Diluted underlying earnings per share	391	1,323	29.6	333	1,323	25.2

The tax base difference primarily represents the difference between the actual charge in the consolidated income statement (including tax on the profits of joint ventures and associates) and the Group's underlying tax charge, as disclosed below. The dilutive effect of the convertible bonds is included solely to calculate diluted underlying earnings per share.

Reconciliation of profit for the year from continuing operations attributable to ordinary shareholders from continuing operations

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Profit attributable to ordinary shareholders from continuing operations	60	138
Result attributable to non-controlling interests from continuing operations	3	(1)
Profit for the year from continuing operations	63	137

Reconciliation of underlying operating profit to underlying earnings (Non-GAAP measure)

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Underlying operating profit	589	490
Net underlying financial expenses	(116)	(100)
Underlying profit before tax	473	390
Underlying tax charge at 27% (2012: 27%)	(128)	(105)
Underlying profit for the year	345	285
Attributable to ordinary shareholders	342	286
Attributable to non-controlling interests	3	(1)
Underlying profit for the year	345	285

13. Return on invested capital (Non-GAAP measure)

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 pre-tax weighted average cost of capital. Progress in achieving this objective has been made during this year by improving underlying operating profit, which increases ROIC to 14.8% (2012:12.2%).

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.

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:

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
Return on invested capital		
Underlying operating profit	589	490
Taxation at the underlying effective rate of 27% (2012: 27%)	(159)	(132)
Underlying NOPAT	430	358
Net assets	1,491	1,609
Net debt	-	108
Seasonal net debt adjustment	320	400
Cumulative goodwill impairment charge	378	190
Defined benefit pension net deficit	661	648
Invested Capital	2,850	2,955
Average Invested Capital	2,903	2,936
ROIC	14.8%	12.2%