

STRATEGIC REPORT

What are the risks? Principal risks

Risk Governance

- Successful management of existing and emerging risk is critical to the long-term success of our business and a key area of management focus.
- We continue to strengthen our risk governance framework which enables us to identify and understand more fully the threats and opportunities in the market place, to match these against the strengths and weaknesses of our Group and to respond accordingly. Our risk management process, and the risk software supporting it, helps to drive clarity, consistency, transparency and accountability at every level of the organisation. It enables us to understand and manage our risk exposures (both individually and in aggregate) across the Group so that, at any given time, we are incurring the right level and the right type of risk to pursue effectively our strategic goals.
- We recognise that good risk governance exists when an organisation is intuitively sensitive to changes in its risk landscape and its risk profile and is quick to flex either its strategic objective and/or its risk strategy, as necessary to drive long-term value. We also recognise that this capability requires active commitment at the top, a strong independent risk function, clear, consistent risk methodology and language, good information flows and a culture of open and honest communication.
- Our risk governance framework, which is aligned to and embedded within our business planning cycle, is set out below and summarises the various risk-related roles, responsibilities and relationships operating throughout the Group.

Strategic Risk Governance

Risks of the Strategy: (Direction)

The Board determines the strategic direction of the business and agrees the nature and extent of the risk it is willing to take to achieve its strategic objectives.

However, effective risk management is dependent on the capability and commitment of our people. The **Nomination Committee** ensures that an appropriate balance of skills, knowledge and experience exists in the Boardroom to understand and manage the risk environment at a strategic level, providing a culture whereby risks and assumptions are challenged and debated rigorously.

To ensure that the strategic direction chosen by the business represents the best of the strategic options open to it, the Board is supported by the **Group Strategy function**. This function exists to facilitate and inform the Board's assessment of the risk landscape and development of potential strategies by which it can drive long-term shareholder value. On an annual basis the Group Strategy function develops an in-depth fact base, in a consistent format which outlines the market attractiveness, competitive position and financial performance by Sector and source market. These are presented to the Board by the Executive Directors and time set aside in April, July and September to allow full consideration and debate as to the level and type of risk that the Board finds appropriate in the pursuit of enhanced shareholder value. Through this process, the strategic options and the trade-offs between risk and reward are debated upfront and through ongoing review and refinement are pulled progressively into the close weave of strategic intent that best fits the business, its culture, capabilities and resource. The strategy, once fully defined, considered and approved by the Board, is then incorporated into the Group's five-year roadmap and helps to communicate the risk appetite and expectations of the organisation both internally and externally.

Risks to the Strategy: (Execution)

Having determined the appropriate level of risk for the business, in relation to the potential for reward, the Board ensures that risks to the delivery of the strategic objectives are identified, assessed and managed effectively.

While the Nomination Committee ensures an optimum balance of skills, knowledge and experience required within the executive management team to deliver the strategy, the **Remuneration Committee** ensures the right reward system to drive an appropriate culture of high performance with commensurate control. Business performance relating to the achievement of strategic, operational and financial objectives is reviewed and monitored closely at **Business Review Meetings** chaired by the Chief Executive.

The **Audit Committee**, on behalf of the Board, seeks assurance that the risk management and internal control system is operating effectively throughout the organisation and that risks to the delivery of the strategy and long-term viability of the business are being managed effectively such that the risk profile is well within the risk capacity of the organisation and appropriately aligned with the risk appetite set by the Board. The Audit Committee receives this assurance from three lines of defence:

Management: The Audit Committee receives presentations from management on a routine basis to understand the key risks facing their businesses and how these are being addressed.

Group Functions: The Audit Committee receives updates from the **Group Risk Management Committee (GRMC)** and **Group Risk function** on activities relating to risk management as well as updates from the **Group functions (including their relevant Compliance functions)** on activities relating to the establishment of control standards and adherence to them.

Internal Audit: The Audit Committee receives assurance from Internal Audit over the processes, Principal risks and business transformation initiatives most critical to the Group's continued success.

Operational Risk Governance

Whilst ultimate responsibility for risk management rests with the Board, effective day-to-day management of risk sits within the business. Management is responsible for setting the right tone at the top and establishing a culture where employees are expected to be risk aware, control minded and to 'do the right thing'.

The GRMC is a Committee of the Group Management Board (GMB). It is chaired by the Chief Executive and comprises the full membership of the GMB supported by key members of the risk and control community. The GRMC has two key responsibilities:

- to ensure that an effective risk management process is operating throughout the organisation; and
- to be involved actively in identifying, assessing and managing those risks most significant to the long-term value of the organisation.

To discharge the first of these responsibilities the GRMC selects key business areas and Group functions for scrutiny and invites the MDs and their Risk Champions (individuals chosen by the MDs to champion the process in their respective business areas) to discuss how risk is managed (risk process) and the risks identified 'bottom up' as a result (risk content). It also receives regular presentations from the Director of Group Audit Services on the ongoing level of engagement and effectiveness of each Sector/Source Market in relation to the risk management process, specific areas of strength and weakness by individual business area and an analysis of the 'bottom up' risks reported, along with any developing themes.

The majority of GRMC time however is reserved for the identification, assessment and management of Principal risks to the Group strategy. Individual members of the GRMC are accountable for specific Principal risks and for the quality of Risk & Control Summaries which set out the key controls on which reliance is placed and the further actions that are required, as necessary, to achieve targeted risk level. These risks, controls and targets are reviewed and approved at the GRMC and then communicated 'top down' to the wider business to ensure that risks are managed within these levels through the organisation. The GRMC also recognises the natural cycle of risk exposure, the interaction of individual risks and the extent to which individual risks may be offset through natural hedging or amplified through specific risk combinations.

Feedback to the Board

The Director of Group Audit Services provides an update to the Audit Committee and the Board on how risk is being managed across the organisation (risk process) and the Executive Directors provide an update to the Board twice a year on the key risks under consideration (risk content). This feedback is reviewed and debated by the Board to ensure management has understood the risks and that mitigation fits within its overall risk appetite. Where there is misalignment between the risk profile and the risk appetite (i.e. management are taking too much or too little risk relative to the strategic objectives) the Board seeks to ensure that appropriate corrective action is being taken. During the year the Board reviewed the completeness of the Principal risks, debated risk appetite and management's alignment with it and raised issues relating to the transparency and consistency of 'bottom up' risks reported.

Additional committees of the GMB

The following committees form part of the overall risk governance framework:

The Capability Committee supports the risk governance process by assessing the Group's current capability and competence against its future needs in the achievement of its strategic objectives.

The Investment Committee ensures that risk and reward is closely scrutinised prior to any acquisitions, capital expenditure and major investments.

The Projects Committee oversees cross-Group projects and ensures that interdependencies and risks (both upside and downside) are understood fully and guidance provided, as appropriate.

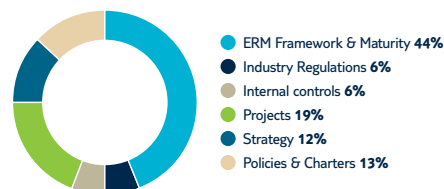
Risk Management Process

The Group Risk function supports the risk management process by providing guidance, support and challenge to management whilst acting as the central point for co-ordinating, monitoring and reporting on risk across the Group.

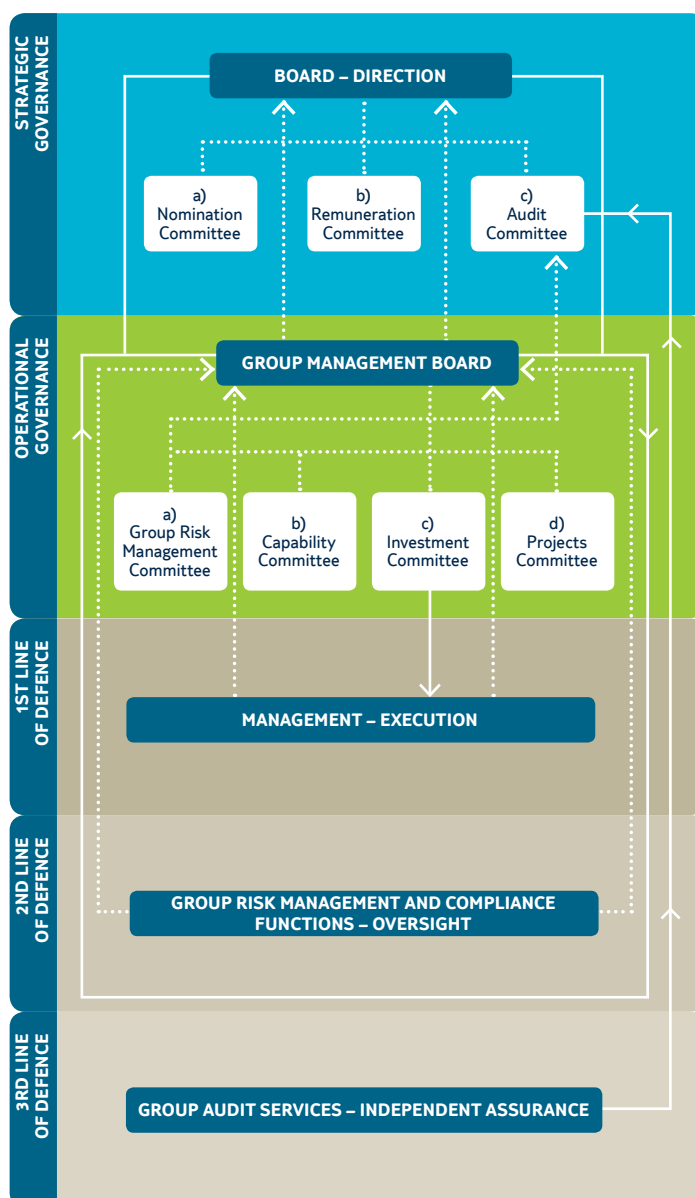
The Group Risk function applies a consistent risk methodology across all key areas of the business. This is underpinned by risk and control software which reinforces clarity of language, visibility of risks, controls and actions and accountability of ownership. Although the process of risk identification,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

This is considered by the GRMC alongside the Group's Principal risks. New risks are added to the Group Risk Profile if deemed to be of a significant nature so that the ongoing status and the progression of key action plans can be managed in line with the Group's targets and expectations.

TOPICS PRESENTED AND DEBATED AT THE GRMC DURING THE YEAR



Risk Governance Framework



STRATEGIC REPORT

What are the risks? Principal risks






continued

Risk landscape



Principal risk table






The ordering in the table below does not seek to provide an indication of the relative significance of the risks nor is it a complete list of all the risks to which the Group is exposed. It does, however, highlight the change in the Group's risk profile relative to the changes experienced within the environment in which we operate (Net Risk Movement) and in consideration of its willingness to take on risk (Risk Appetite).

RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
STRATEGIC		
CONSUMER PREFERENCES & DESIRES STRATEGIC DRIVERS  CONTENT  BRANDS & DISTRIBUTION  TECHNOLOGY  GROWTH & SCALE  PEOPLE	CONTEXT Price, product and digital solutions play a key part in the consumer's decision-making process. Consumer research and booking preferences are constantly evolving (from offline to online, and from desktop to mobile and tablet) with booking moving closer to the time of travel. RISK We do not identify or respond quickly enough to changes in consumer preferences and do not keep up with latest technological developments. POTENTIAL IMPACT Our market positions come under pressure resulting in lower short to medium-term growth rates and reduced margins. APPETITE (PROACTIVE) We are passionate about anticipating customer desires and are not afraid to be innovative and make brave decisions to ensure we remain relevant to our consumer preferences. NET RISK MOVEMENT ▼ <i>"We have made significant progress to enhance our offering of unique end-to-end experiences to our consumers. This however has been off-set by evolving consumer desires & expectations. This inspires us to invest in innovation and strive continuously to be one step ahead"</i> KEY RISK INDICATORS INCLUDE <ul style="list-style-type: none"> • Competitor activity • Customer net promoter scores • Brand performance 	GROUP-WIDE <ul style="list-style-type: none"> • Monitoring closely changes in consumer preferences and sentiment within the wider context of our industry and the different sources of influence on our customers' spending. • Developing new concepts and services which are unique, diverse and value adding. • Maintaining our focus on being an 'online driven' business, and tracking the gap (both upside and downside) between our offer and the competition's to inform effective decision-making. TOUR OPERATOR <ul style="list-style-type: none"> • Leveraging our One Mainstream structure to enhance the portfolio of unique and exclusive products designed to increase our competitive advantage. • Reviewing continuously our existing concept portfolio adapting where appropriate for different source markets and opening new destinations. • Investing in a common platform across One Mainstream that will provide our customers with real time, personalised, and consistent services across any of the channels in which they choose to interact with us. • Developing the strong brand portfolio of tailor-made products and services within our Specialist businesses and reviewing opportunities to extend it into new markets. • Focusing on being online throughout the whole of the customer journey - from inspiration, to booking, to the holiday itself, as well as returning and sharing experiences through social media. • Launching a range of successful applications (e.g. the TUI Digital Assistant app and Crystal Ski Explorer). ONLINE ACCOMMODATION <ul style="list-style-type: none"> • Reviewing closely our offer to ensure that we have a wide variety of product, in terms of quality, destination and budget. • Developing continuously our digital content ensuring it is clear, relevant and well presented in order to capture the market and ensure customer loyalty and repeat customers. • Updating and upgrading IT platforms to ensure our Wholesaler and OTA businesses are supported by effective and efficient systems improving the service delivery to our global customers that underpins our growth strategy.

STRATEGIC REPORT

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
STRATEGIC		
BUSINESS IMPROVEMENT OPPORTUNITIES STRATEGIC DRIVERS  CONTENT  BRANDS & DISTRIBUTION  TECHNOLOGY  GROWTH & SCALE  PEOPLE	CONTEXT The Group is heavily reliant on legacy systems, processes and structures which, in some cases, are outdated, complex and inefficient. RISK We do not address successfully the legacy inefficiencies and complexities of our existing infrastructure. POTENTIAL IMPACT We incur higher costs due to inefficiencies, impacting our ability to optimise business performance and provide a value-added service to our consumers. APPETITE (PROACTIVE) We are passionate about innovation and adding value to our customers and look actively for opportunities that might strengthen our strategic and tactical agility. NET RISK MOVEMENT ▼ <i>"We are constantly seeking new opportunities to add value to all our stakeholders supported by a strengthened project management approach ensuring we optimise our ability to deliver maximum benefits"</i> KEY RISK INDICATORS INCLUDE <ul style="list-style-type: none"> • Project status • Common platforms vs. local • COSO maturity by business 	GROUP-WIDE <ul style="list-style-type: none"> • Driving stronger and more cost-effective relationships with key service providers through better co-ordination of key procurement activities. • Strengthening our internal control environment through the continued rollout of the COSO control framework across Financial Reporting, Compliance and Operational categories of control through the establishment of Group Finance, Legal & Regulatory and IT Compliance. • Strengthening our project and programme management competency and capability to deliver change on time, on cost and on scope. • Strengthening business continuity management in our various businesses to build resilience into our operations. TOUR OPERATOR <ul style="list-style-type: none"> • Continuing to build on the foundations of One Mainstream which, implemented last year, allows us to take full advantage of our scale and buying power and delivers more effective operations without compromising customer experience. • Increasing controlled distribution thereby reducing third party costs and enabling a direct relationship with our customers. • Continuing to expand our portfolio of new concept stores, which incorporates digital elements and inspiration in recognition of the fact that retail remains an important part of the booking process. • Focusing on developing a personalised service through implementing a system 'Connect' which allows customer information to be shared across multiple booking platforms. • Maximising technological efficiencies through the consolidation of finance and reservation systems across multiple source markets and inter-linking systems to ensure a seamless customer experience while also generating more robust and reliable management information. • Continuing to deploy the Dreamliner across One Mainstream giving our customers a superior flight experience and allowing us to offer new long-haul destinations and more capacity to existing ones. ONLINE ACCOMMODATION <ul style="list-style-type: none"> • Continuing our IT transformation programme in our Wholesaler and OTA businesses to improve overall competitiveness and facilitate the rapid integration of new brands whether acquired or organically developed. • Progressing our strategy of consolidating our market-leading position by further expanding in existing destinations whilst focusing on our development in both new source markets as well as new destinations. • Extending our Bedsonline customer base (accommodation provider) through effective partnering with easyJet. • Planning to drive superior growth by developing new distribution channels and new customer segments in this market.



RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
STRATEGIC		
NEW MARKETS, ACQUISITIONS & INVESTMENTS STRATEGIC DRIVERS  CONTENT  BRANDS & DISTRIBUTION  TECHNOLOGY  GROWTH & SCALE  PEOPLE	<p>CONTEXT</p> <p>The Group continues to look into new markets as the traditional Mainstream markets mature. Specialist businesses, online accommodation and new markets represent a significant opportunity to participate in longer-term travel growth trends and have higher growth potential.</p> <p>RISK</p> <p>We do not maximise potential growth opportunities to deliver results in new markets due to lack of investment appetite, short termism and difficulty in leveraging Group assets and integrating operations and systems.</p> <p>POTENTIAL IMPACT</p> <p>Our potential long-term growth rates and margins are impacted, with cash flows lower than anticipated and significant absorption of resource.</p> <p>APPETITE (OPEN)</p> <p>We are willing to consider all markets, acquisitions and investments to drive long-term sustainable growth value.</p> <p>NET RISK MOVEMENT ▲</p> <p><i>"In light of the ongoing challenging trading environment in Russia and Ukraine we took the decision to make an impairment of £28m against loans to our joint venture in the fourth quarter"</i></p> <p>KEY RISK INDICATORS INCLUDE</p> <ul style="list-style-type: none"> • Market analysis • Partner assessment • Integration post acquisition 	<p>GROUP-WIDE</p> <ul style="list-style-type: none"> • Coordinating M&A activity at a Group level to identify and optimise the best growth opportunities available to the business. <p>TOUR OPERATOR</p> <ul style="list-style-type: none"> • Developing and delivering the participation strategy for both outbound and domestic tour operations in new markets, to create long-term growth and improved shareholder value. • Strengthening our position in the Indian market through increased shareholding in Le Passage to India (inbound and MICE destination management services) and TUI India (domestic and outbound tour operator). <p>ONLINE ACCOMMODATION</p> <ul style="list-style-type: none"> • Reviewing continuously our strategy for targeting emerging markets, in particular in Africa, Asia and Latin America. • Developing our presence in the Asia Pacific with AsiaRooms.com and in Brazil with MalaPronta.com and attracting new customers through increased brand awareness.

STRATEGIC REPORT

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
OPERATIONAL		
GLOBAL FINANCIAL FACTORS STRATEGIC DRIVERS  GROWTH & SCALE	<p>CONTEXT Geo-political events continue to highlight the inherent risks within travel and tourism, whilst the ongoing banking sector recovery and the introduction of Basel III have the potential to impact long-term financing availability. The cross-border nature of trading exposes our business to fluctuations in exchange rates and complex tax laws. In addition a significant proportion of operating expenses are in relation to aircraft fuel which is also subject to fluctuation.</p> <p>RISK We do not manage adequately the volatility of exchange rates and fuel prices or other rising input costs; we face an increase in tax authorities taking a more strident tax approach in order to fund local fiscal deficits; and difficulties in securing additional facilities, if needed, and at a reasonable cost.</p> <p>POTENTIAL IMPACT We suffer increased costs which reduce demand resulting in lower revenue and/or margins. We face a negative impact on cash flow, lengthy tax litigation processes and possible reduction in the Group's after-tax earnings.</p> <p>APPETITE (CAUTIOUS) We are careful to ensure as stable and as predictable an environment as possible in relation to FX and fuel, tax, funding and liquidity.</p> <p>NET RISK MOVEMENT  <i>"We continue to manage our global business through challenging economic times. This has given us the opportunity to build resilience in to our business and strengthen our day-to-day operations"</i></p> <p>KEY RISK INDICATORS INCLUDE</p> <ul style="list-style-type: none"> • Compliance to policy • Market intelligence • Media exposure 	<p>GROUP-WIDE</p> <ul style="list-style-type: none"> • Ensuring that hedging cover for fuel and foreign currency is taken out ahead of source market customer booking profiles to provide certainty of input costs when planning pricing and capacity. • Tracking the foreign exchange and fuel markets to ensure the most up-to-date market intelligence and the ongoing appropriateness of our hedging policies. • Maintaining high-quality relationships with tax authorities through regular communication keeping them informed of the commercial reality of our business operations. • Monitoring our funding and liquidity position to ensure key facilities are refinanced well ahead of maturity. We recognise the impact that different aspects of our operations can have on our access to financial facilities and seek to ensure that these are appropriately understood and controlled. During the year we refinanced our banking facilities with the signing of a new £1.4bn bank credit facility. • Maintaining high-quality relationships with the Group's key financiers and monitoring compliance with the covenants contained within our financing facilities.
OPERATIONAL		
CONSUMER DEMAND STRATEGIC DRIVERS  CONTENT  BRANDS & DISTRIBUTION  TECHNOLOGY  GROWTH & SCALE  PEOPLE	<p>CONTEXT Spending on travel and tourism is discretionary and price sensitive. The economic outlook remains uncertain with different source markets at different points in the recovery cycle. Consumers are also waiting longer to book their trips in order to assess their financial situation.</p> <p>RISK We do not respond successfully to changes in consumer demand and/or the consumer preference for late booking.</p> <p>POTENTIAL IMPACT Our short-term growth rates and margins are lower than anticipated.</p> <p>APPETITE (OPEN) We are willing to consider options which add value to our customers and secure and improve the flexibility, resilience and attractiveness of our business model.</p> <p>NET RISK MOVEMENT  <i>"We are operating in an increasingly dynamic environment. Demand for leisure travel remains strong and, as our main markets recover from economic stagnation, we are well positioned to maintain our market-leading positions and grow further"</i></p> <p>KEY RISK INDICATORS INCLUDE</p> <ul style="list-style-type: none"> • Consumer sentiment • GDP growth • Competitor monitoring 	<p>GROUP-WIDE</p> <ul style="list-style-type: none"> • Maintaining our focus on creating lifetime relationships with our customers through great service and fantastic lifetime experiences. • Leveraging our scale, flexibility and exclusivity in order to deliver sustainable, profitable growth and out-perform the market. <p>TOUR OPERATOR</p> <ul style="list-style-type: none"> • Assessing our product offering in the context of the confidence levels and cost of living pressures being experienced by our customers. • Exploiting the flexibility and resilience of our business model and the functionality of our sophisticated capacity and yield management systems in order to drive margins and profits growth by ensuring that capacity is closely aligned to forecasts. <p>ONLINE ACCOMMODATION</p> <ul style="list-style-type: none"> • Continuing to exploit our model which involves minimum commitment risk and operates extremely well in relation to the online lates market.


RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
OPERATIONAL		
TALENT MANAGEMENT STRATEGIC DRIVERS  TECHNOLOGY  PEOPLE	CONTEXT The Group's success depends on its ability to retain key management and it relies on having good relations with its colleagues. RISK We are unable to attract and retain talent, build future leadership capability and maintain the commitment and trust of our employees. POTENTIAL IMPACT We do not maximise our operating results and financial performance. APPETITE (OPEN) We are willing to invest in the appropriate levels of competence and capability to drive the future success of our business. NET RISK MOVEMENT ▶ <i>"Our people are a key differentiator for TUI Travel, they set us apart from our competition. This year our focus in HR has been on developing a consistent, effortless and engaging experience for our colleagues, which in turn will be transferred to our customers"</i> KEY RISK INDICATORS <ul style="list-style-type: none"> • Your Voice Survey results • Talent gap analysis • Employed vs. contracted ratio 	GROUP-WIDE <ul style="list-style-type: none"> • Assessing continuously our organisational competence and capability against that required to maximise current and future shareholder value. • Ensuring succession plans are in place for all identified business critical roles, in particular emergency successors for all Source Market and Sector Board roles, and that these plans are reviewed every six months. • Using our Group-wide leadership framework (including our Your Voice survey) to engage and empower people whilst delivering results and managing performance. • Continuing to attract high quality talent from across the world in to our International Graduate Leadership Programme and local graduate schemes. • Enhancing continuously our existing development programmes for senior managers and executives and adding new programmes for junior managers. • Driving high performance and engagement through our performance review, development plans and career planning process. • Extending our 'risk & control and doing the right thing' objectives down through the organisation as part of developing a strong culture of effective risk governance. • Focusing on enabling our people digitally in support of our commitment to be an online-driven company.

RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
OPERATIONAL		
POLITICAL VOLATILITY, NATURAL CATASTROPHES AND OUTBREAKS STRATEGIC DRIVERS  CONTENT  GROWTH & SCALE	CONTEXT Providers of holiday and travel services are exposed to the inherent risk of domestic and/or international incidents affecting some countries/destinations within their operations. RISK We are not able to respond efficiently and effectively to large-scale events. POTENTIAL IMPACT We suffer significant operational disruption in our Source Markets and destinations leading to significant losses (holiday cancellations, repatriation of customers) and a general decline in consumer demand and increase in our insurance premiums. APPETITE (CAUTIOUS) We are careful to ensure we have the appropriate levels of flexibility & resilience in our business model to withstand shocks to our operations and ultimately our customers. NET RISK MOVEMENT ▶ <i>"We operate in a market segment that, as a matter of course, has to weather external events. Our strong, flexible and resilient business model enables us to continue with minimal disruption to our day-to-day activities and customers"</i> KEY RISK INDICATORS <ul style="list-style-type: none"> • Local intelligence • Passengers by destination • Media coverage 	GROUP-WIDE <ul style="list-style-type: none"> • Maintaining a balanced destination mix to minimise concentration and having flexible supplier agreements in order to enable capacity to be switched as required. • Leveraging our unique products and strong brand to drive earlier booking, giving us more time to react to external events. • Reviewing trading outlooks destination-by-destination with the management team of each business area during our regular business review meetings and developing operational contingency as appropriate. • Maintaining strong relationships with local tourism bodies, travel and aviation industry associations, actively monitoring the political situation in volatile destinations and acting upon security intelligence advice as it is received. • Minimising the impact of negative events in our Source Markets and destinations by ensuring the effective execution of our established incident management and emergency response plans and the deployment of our experienced leadership teams to support and repatriate stranded customers. • Tracking hotel commitments and prepayments on a timely and sufficiently granular basis to manage our financial exposure to justifiable levels. • Promoting the benefits of travelling with a recognised and leading tour operator to increase consumer confidence and peace of mind.

STRATEGIC REPORT

Principal risk table

continued

RISK CATEGORY	NATURE AND EXTENT OF RISK	MITIGATION
COMPLIANCE		
REGULATORY ENVIRONMENT STRATEGIC DRIVERS  CONTENT  GROWTH & SCALE	CONTEXT Industries in which the Group operates are highly regulated, particularly in relation to consumer protection, aviation and the environment. RISK We do not establish an effective system of internal control to ensure we operate in compliance with all legal and regulatory requirements. POTENTIAL IMPACT We suffer negative impact which damages our reputation, results in reduced revenue and/or higher input costs. APPETITE (ADVERSE) We have a low tolerance to instances of non-compliance and are careful to be a good corporate citizen in all of the countries in which we operate. NET RISK MOVEMENT ▼ <i>"We have engaged consistently with the European Commission, the European Parliament and with member states as they have considered these reforms [Air Passenger Rights and Package Travel Directive] and will continue to do so over the coming 12 months"</i> KEY RISK INDICATORS <ul style="list-style-type: none"> • Market intelligence • Propensity to claim • Media exposure 	GROUP-WIDE <ul style="list-style-type: none"> • Addressing issues affecting the industry and our customers through our political and regulatory affairs team, who engage with regulators and governments to help ensure legislation that is fit for purpose, properly balances the interests of industry and consumers and treats all industry players fairly. • Lobbying for greater clarity and simplification of the Package Travel Directive to ensure a level playing field across the industry for all those involved in putting together more than one element of a holiday (flight, transportation, accommodation, excursions etc.). • Maintaining a comprehensive Anti-Bribery & Corruption (ABC) training programme across the Group to raise awareness of the provisions of the Bribery Act 2010 in order to prevent bribery and corruption in the countries in which we operate. • Monitoring the adequacy and effectiveness of the ABC procedures and measures established, in order to prevent bribery and corruption in the countries in which we operate. • Delivering a sustainability strategy across the Group, to develop more sustainable holidays and to reduce the environmental impact at each stage of our customer's journey. A dedicated sustainable development team supports the Group and works closely with business management (see our Sustainable Development section on page 24). • Maintaining our leadership position on carbon reporting and performance. Ranked joint first place in the FTSE 350 for climate change reporting and transparency in the 2014 Carbon Disclosure Project. Operating the most fuel efficient airlines in Europe – reducing per passenger carbon emissions by 10.3% over the last six years.

Health & Safety

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

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

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

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

- monitoring H&S management systems across the Group;
- collating relevant data and establishing mechanisms for regular reporting against established Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs);
- documenting and communicating to all businesses minimum Group H&S management system requirements and associated H&S standards;
- providing training in H&S incident reporting and risk assessments;
- providing guidance, advice and support to operating businesses; and
- investigating fatalities, serious incidents and near misses.

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

Employee safety

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

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

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

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

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

Customer safety

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

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

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

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

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

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

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

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

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

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

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

Peter Long
 Chief Executive
 3 December 2014