

# Notes to the financial statements

## 1. General information

Thomas Cook Group plc is a limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006 and listed on the London Stock Exchange. The address of the registered office is 6th Floor South, Brettenham House, Lancaster Place, London, WC2E 7EN. The principal activities of the Group are discussed in the Business Review on pages 2 to 39.

These consolidated financial statements were approved for issue by the Board of Directors on 29 November 2009.

At the date of authorisation of these financial statements, the following Standards and Interpretations that are expected to impact on the Group but which have not been applied in these financial statements, were in issue but not yet effective.

IFRS 8	'Operating segments', issued in November 2006, effective for periods beginning on or after 1 January 2009. This may change the way in which we report operating segments in the future.
IFRS 3 Revised	'Business combinations', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This will significantly change the recognition of goodwill, acquisition costs and contingent consideration relating to future acquisitions.
IAS 28 Amendment	'Investments in associates' and amendment to IAS 31, 'Interests in joint ventures' (with consequential amendments to IAS 32, 'Financial Instruments: presentation' and IFRS 7, 'Financial instruments: disclosures'), effective for annual periods beginning on or after 1 January 2009. These amendments are part of the IASB's annual improvements project published in May 2008 and will change the disclosure requirements for investments accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement'. The adoption of these amendments is not expected to have a material impact on the Group.
IAS 27 Revised	'Consolidated and separate financial statements' is effective for annual periods beginning on or after 1 July 2009. The revised standard requires different accounting treatment for minority interest but it is not expected to affect the Group's financial results or position materially.
IFRS 2 Amendment	'Share based payment', effective for annual periods beginning on or after 1 January 2009. This provides a definition of vesting conditions and specifies the accounting treatment for non-vesting conditions. It is not expected to materially affect the share based payment charge recognised in the Group accounts.
IAS 23 Amendment	'Borrowing costs', revised version issued in March 2007, effective for annual periods beginning on or after 1 January 2009. This eliminates the option of expensing all borrowing costs when they are incurred and is not expected to have a material impact on the Group.
IFRS 7 Amendment	'Financial instruments – disclosures', effective 1 January 2009. The amendment requires enhanced disclosures about fair value and measurement risk. As the change only results in disclosure changes there is no impact on the results of the Group.
IAS 1 Revised	'Presentation of financial statements' is effective for annual periods beginning on or after 1 January 2009. This requires the reconciliation of movements in equity to be presented as a primary financial statement and increased disclosures when there is a restatement of comparatives. Adopting this standard will not affect the recognition or measurement of any transactions or events.
IAS 32 Amendment	'Financial instruments: Presentation', issued in February 2008, effective for annual periods beginning on or after 1 January 2009. This clarifies the treatment of puttable financial instruments. The adoption of this amendment is not expected to have a material impact on the Group.
IAS 38 Amendment	'Intangible assets', effective for annual periods beginning on or after 1 January 2009. The amendment is part of the IASB's annual improvements project published in May 2008. This will change the way in which the Group accounts for brochure costs.
IFRIC 13	'Customer loyalty programmes', issued in June 2007, effective for annual periods beginning on or after 1 January 2009. The interpretation is not expected to have a material impact on the Group.
IFRIC 14	'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', issued in July 2007, effective for periods beginning on or after 1 January 2009. The interpretation is not expected to have a material impact on the Group.

The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

## 2. Accounting policies

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to groups reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

No new standards or interpretations have been adopted during the current year which have had a material impact on the financial statements.

The financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments and investment property.

The principal accounting policies applied in the preparation of the financial information presented in this document are set out below. These policies have been applied consistently to the periods presented.

### Basis of preparation

During the year, the prior period was restated for fair value adjustments and revenue accounting adjustments related to the acquisitions of TriWest Travel Holdings and Jet Tours S.A. The revenue accounting adjustments have no impact on profit. The determination of fair values related to these acquisitions has now been concluded. Refer to note 16 of the Group Financial Statements for further detail.

During the prior period, the year end of the Group had been changed from 31 October to 30 September, as a result the prior period results are for eleven months and are not comparable with the current year numbers.

## Notes to the financial statements continued

### 2. Accounting policies continued

The Group's financial statements consolidate those of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of are consolidated for the periods from or to the date on which control passed. Subsidiaries are entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Acquisitions are accounted for under the purchase method. Where a transaction is a business combination amongst entities under common control, the requirements of IFRS 3 are applied. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill.

Where audited financial accounts are not coterminous with those of the Group, the financial information has been derived from the last audited accounts available and unaudited management accounts for the period up to the Company's balance sheet date.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Interpretation guidance included within SIC Interpretation 12 – Consolidation – special purpose entities indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing and other arrangements with the Group, should be interpreted as controlled by the Group, and therefore subject to consolidation, even though the Group has no direct or indirect equity interest in those entities. The Group has consolidated three SPEs that own four aircraft operated by the Group under operating leases. In addition, as a result of the sale of the ultimate parent's (Arcandor AG) shareholding in the Group during the year, the operations of the German Airline have been placed in a holding company, in which the Group holds a 50.0023% direct interest. All risks and rewards continue to be held by the Group and under accounting standards the entity should be interpreted as 100% controlled and fully consolidated by the Group.

#### Associates and joint ventures

Entities, other than subsidiaries, over which the Group exerts significant influence, but not control or joint control, are associates. Entities which the Group jointly controls with one or more other party under a contractual arrangement are joint ventures. The Group's share of the results of associates and joint ventures is included in the Group's income statement using the equity accounting method. Investments in associates and joint ventures are included in the Group balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the entity, and including any goodwill identified on acquisition, net of any accumulated impairment loss. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred.

#### Other non-current asset investments

The fair value of investments in equity instruments that do not have a quoted market price in an active market are measured using an appropriate valuation technique. Where a fair value cannot be reliably measured, the investment is measured at cost. Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Any impairment losses are recognised in the income statement.

#### Intangible assets – goodwill

Goodwill arising on an acquisition represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset, and is reviewed for impairment at least annually. Any impairment is recognised immediately in the Group's income statement and is not subsequently reversed. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows into cash-generating units. The allocation of goodwill is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each segment in which it operates. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Intangible assets – other

Intangible assets, other than goodwill, are carried on the Group's balance sheet at cost less accumulated amortisation. Intangible assets with indefinite useful lives are not amortised. For all other intangible assets, amortisation is charged on a straight-line basis over the asset's useful life, as follows:

Brands	10 years to indefinite life
Customer relationships	1 to 12 years
Computer software	3 to 10 years

Other acquired intangible assets are assessed separately and useful lives established according to the particular circumstances.

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life given the strength and durability of our brands and the level of marketing support. The nature of the industry we operate is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend.

Intangible assets with indefinite useful lives are tested for impairment at least annually by comparing their carrying amount to their recoverable amount. All other intangible assets are assessed at each reporting date for indications of impairment. If such indications exist, the recoverable amount is estimated and compared to the carrying amount. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised immediately in the income statement.

#### Property, plant and equipment

Except for investment property, property, plant and equipment is stated at cost, net of straight-line depreciation and any provision for impairment.

Where costs are incurred as part of the start-up or commissioning of an item of property, plant or equipment, and that item is available for use but incapable of operating in the manner intended by management without such a start-up or commissioning period, then such costs are included within the cost of the item. Costs that are not directly attributable to bringing an asset to the location and condition necessary for it to be capable

of operating in the manner intended by management are charged to the income statement as incurred. Depreciation on property, plant and equipment, other than freehold land and investment property, upon which no depreciation is provided, is calculated on a straight-line basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Freehold buildings	40 to 50 years
Leasehold properties	Shorter of remaining lease period and 40 years
New aircraft	12 to 20 years (or remaining lease period if shorter)
Aircraft spares	5 to 15 years (or remaining lease period if shorter)
Other fixed assets	3 to 15 years

Estimated residual values and useful lives are reviewed annually.

Investment property comprises land and buildings which are held for long-term rental yields and capital growth. It is carried at fair value, with changes in fair value recognised in the income statement. Investment property is valued annually by external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

#### Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets and their sale must be highly probable. Sale is considered to be highly probable when management are committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan has been initiated, at a price that is reasonable in relation to their current fair value and there is an expectation that the sale will be completed within one year from the date of classification.

Non-current assets classified as held for sale are carried on the Group's balance sheet at the lower of their carrying amount and fair value less costs to sell.

#### Aircraft overhaul and maintenance costs

The cost of major overhauls of owned and finance leased engines, auxiliary power units and airframes is capitalised and then amortised over between two and ten years until the next scheduled major overhaul, except where the maintenance of engines and auxiliary power units is carried out under fixed rate contracts, in which case the cost is spread over the period of the contract. Provision is made for the future costs of major overhauls of leased engines, auxiliary power units and airframes by making appropriate charges to the income statement, calculated by reference to hours flown and/or the expired lease period, as a consequence of obligations placed upon the Group under the terms of certain of the operating leases.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents purchase price. Net realisable value represents the estimated selling price less all costs to be incurred in marketing, selling and distribution.

#### Revenue recognition and associated costs

Revenue represents the aggregate amount of gross revenue receivable from inclusive tours, travel agency commissions receivable and other services supplied to customers in the ordinary course of business. Revenue and direct expenses relating to inclusive tours arranged by the Group's leisure travel providers, including travel agency commission, insurance and other incentives, are taken to the income statement on holiday departure. Revenue relating to travel agency commission on third party leisure travel products is also recognised on holiday departure. Other revenue and associated expenses are taken to the income statement as earned or incurred. Revenue and expenses exclude intra-group transactions.

#### Income statement presentation

Profit or loss from operations includes the results from operating activities of the Group, before its share of the results of associates and joint ventures.

Exceptional items are items that are unusual because of their size, nature or incidence and which the Group's management consider should be disclosed separately to enable a full understanding of the Group's results.

Material business combination intangible assets were acquired as a result of the merger between Thomas Cook AG and MyTravel Group plc and the subsequent acquisitions made. The amortisation of these intangible assets is significant and the Group's management consider that it should be disclosed separately to enable a full understanding of the Group's results.

#### Finance income and costs

Finance income comprises interest income on funds invested, expected return on pension plan assets, changes in the fair value of held for trading financial instruments and the movement in forward points on outstanding foreign currency cash flow hedges.

Finance cost comprises interest cost on borrowings and finance leases, unwind of the discount on provisions, expected return on pension plan liabilities, changes in the fair value of held for trading financial instruments and the movement in forward points on outstanding foreign currency cash flow hedges.

#### Tax

Tax represents the sum of tax currently payable and deferred tax. Tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case the associated tax is also recognised directly in equity.

Tax currently payable is provided on taxable profits based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Provision is made for deferred tax so as to recognise all temporary differences which have originated but not reversed at the balance sheet date that result in an obligation to pay more tax, or a right to pay less tax, in the future, except as set out below. This is calculated on a non-discounted basis by reference to the average tax rates that are expected to apply in the relevant jurisdictions and for the periods in which the temporary differences are expected to reverse. The deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than business combination that at the time of the transaction does not affect either accounting or taxable profit or loss.

Deferred tax assets are assessed at each balance sheet date and are only recognised to the extent that their recovery against future taxable profits is probable.

## Notes to the financial statements continued

### 2. Accounting policies continued

#### Pensions

Pension costs charged against profits in respect of the Group's defined contribution schemes represent the amount of the contributions payable to the schemes in respect of the accounting period.

The Group also operates a number of defined benefit schemes. The pension liabilities recognised on the balance sheet in respect of these schemes represent the difference between the present value of the Group's obligations (calculated using the projected unit credit method) under the schemes and the fair value of those schemes' assets. Actuarial gains or losses are recognised in the period in which they arise within the statement of recognised income and expense. Other movements in the pension liability are recognised in the income statement. Past service costs are recognised immediately in the income statement.

#### Foreign currency

Average exchange rates are used to translate the results of all subsidiaries, associates and joint ventures that have a functional currency other than sterling. The balance sheets of such entities are translated at period end exchange rates.

The resulting exchange differences are recorded through a separate component of equity.

Transactions in currencies other than the functional currency of an entity are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the period end are translated at period end exchange rates. The resulting exchange gain or loss is recorded in the income statement.

When a foreign entity is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

#### Leases

Leases under which substantially all of the risks and rewards of ownership are transferred to the Group are finance leases. All other leases are operating leases.

Assets held under finance leases are recognised at the lower of the fair value of the asset and the present value of minimum lease payments within property, plant and equipment on the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

#### Derivative financial instruments

Derivatives are recognised at their fair value. When a derivative does not qualify for hedge accounting as a cash flow hedge, changes in fair value are recognised immediately in the income statement. When a derivative qualifies for hedge accounting as a cash flow hedge, changes in fair value that are determined to be an effective hedge are recognised directly in the hedging reserve. Any ineffective portion of the change in fair value is recognised immediately in the income statement. If a hedged transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the asset or liability. For all other cash flow hedges, the associated cumulative gain or loss is removed from the hedging reserve and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a derivative qualifies for hedge accounting as a fair value hedge, changes in fair value of the derivative are recognised in the income statement when the offsetting changes in the fair value of the hedged asset or liability, attributable to the hedged risk, occur.

#### Non-derivative financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group transfers the financial asset or when the contractual rights expire. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. The measurement of particular financial assets and liabilities is set out below.

#### Trade receivables

Trade receivables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method as reduced by allowances for estimated irrecoverable amounts. An allowance for irrecoverable amounts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows.

#### Available-for-sale financial assets

Available-for-sale financial assets are recognised and subsequently recorded at their fair value. Gains or losses (except for impairment losses and foreign exchange gains and losses) are recognised directly in equity until the financial asset is derecognised. At this point, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Any impairment losses, foreign exchange gains or losses or dividends receivable are recognised in the income statement.

#### Held for trading investments

Short-term investments are classified as held for trading and are recognised and subsequently recorded at their fair value. Gains or losses are recognised in the income statement.

#### Trade payables

Trade payables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method.

#### Borrowings

Interest bearing borrowings are recognised at their fair value net of any directly attributable transaction costs. They are subsequently recorded at amortised cost using the effective interest method.

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are recognised and subsequently recorded at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is discounted to its present value.

### Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees, according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

### Share-based payments

The Group issues equity-settled share options to certain employees as part of their total remuneration. The fair values of the share options are calculated at the date of grant, using an appropriate option pricing model. These fair values are charged to the income statement on a straight-line basis over the expected vesting period of the options, with a corresponding increase in equity reserves.

### Insurance contracts and reinsurance contracts

Premiums written relate to business accepted during the year, together with any differences between the booked premiums for prior years and those previously accrued, less cancellations. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. Premiums are shown after the deduction of commission and premium taxes where relevant.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported.

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as receivables from reinsurers. The Group assesses its reinsurance assets for impairment on an annual basis.

Receivables and payables are recognised when due. These include amounts due to and from insurance policyholders.

### Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, described above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

#### Residual values of tangible fixed assets

Judgements have been made in respect of the residual values of aircraft included in property, plant and equipment. Those judgements determine the amount of depreciation charged in the income statement.

#### Recoverable amounts of goodwill and intangible assets with an indefinite life

Judgements have been made in respect of the amounts of future operating cash flows to be generated by certain of the Group's businesses in order to assess whether there has been any impairment of the amounts included in the balance sheet for goodwill or intangible assets with an indefinite life in relation to those businesses.

#### Special purpose entities

The nature of the relationship with certain special purpose entities involved in leasing aircraft to the Group shows that they should be interpreted as controlled by the Group, and therefore consolidated, even though the Group has no direct or indirect equity interest in those entities.

#### Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Impairment of goodwill and intangible assets with an indefinite life

Determining whether goodwill or intangible assets with an indefinite life are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

#### Recoverable amounts of deposits and prepayments

Estimates have been made in respect of the volumes of future trading with hoteliers and the credit-worthiness of those hoteliers in order to assess the recoverable amounts of deposits and prepayments made to those hoteliers.

#### Aircraft maintenance provisions

Provisions for the cost of maintaining leased aircraft and spares are based on forecast aircraft utilisation, estimates of future maintenance costs and planned rollover and renewal of the aircraft fleet.

#### Tax

The Group operates in many tax regimes and the tax implications of its operations are complex. It can take several years for tax liabilities to be agreed with the relevant authorities. Tax assets and liabilities represent management's estimates of tax that will be payable or recoverable in the future and may be dependent on estimates of future profitability.

In addition, estimates have been made in respect of the probable future utilisation of tax losses and deferred tax assets have been recognised. The recoverability of these assets is dependent on the agreement of the losses with the relevant authorities and the estimates of future profitability.

#### Retirement benefits

The consolidated financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the salary progression of current employees, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Group uses previous experience and impartial actuarial advice to select the values of critical estimates. The estimates, and the effect of variances in key estimates, are disclosed in note 37.

## Notes to the financial statements continued

**3. Segmental information**

For management purposes, the Group is currently organised into five geographic operating divisions: UK and Ireland, Continental Europe, Northern Europe, North America and Airlines Germany. These divisions are the basis on which the Group reports its primary segment information. Certain residual businesses and corporate functions are not allocated to these divisions and are shown separately as Corporate.

The primary business of all of these operating divisions is the provision of leisure travel services and, accordingly, no separate secondary segmental information is provided.

Segmental information for these activities is presented below:

**Primary segments – management structure**

Year ended 30 September 2009	UK and Ireland £m	Continental Europe £m	Northern Europe £m	North America £m	Airlines Germany £m	Corporate £m	Total £m
<b>Revenue</b>							
Segment sales	3,117.2	4,014.6	1,061.6	370.4	1,061.2	–	9,625.0
Inter-segment sales	(19.2)	(14.3)	(2.3)	–	(320.4)	–	(356.2)
<b>Total revenue</b>	<b>3,098.0</b>	<b>4,000.3</b>	<b>1,059.3</b>	<b>370.4</b>	<b>740.8</b>	<b>–</b>	<b>9,268.8</b>

**Result**

Profit/(loss) from operations before exceptional items and amortisation of business combination intangibles	162.2	127.0	86.4	17.9	47.4	(26.0)	414.9
Exceptional items	(88.8)	(64.6)	(7.3)	(22.8)	(3.4)	(29.0)	(215.9)
Amortisation of business combination intangibles	(14.2)	(0.5)	(18.9)	(1.2)	–	–	(34.8)
<b>Segment result</b>	<b>59.2</b>	<b>61.9</b>	<b>60.2</b>	<b>(6.1)</b>	<b>44.0</b>	<b>(55.0)</b>	<b>164.2</b>
Share of results of associates and joint ventures							(3.8)
Loss on disposal of associate							(2.2)
Net investment income							1.4
Finance income							51.2
Finance costs							(154.7)
<b>Profit before tax</b>							<b>56.1</b>
Tax							(37.8)
<b>Profit for the year</b>							<b>18.3</b>

**Other information**

Capital additions	63.4	22.8	10.3	5.0	63.1	33.4	198.0
Depreciation	47.7	11.1	9.2	1.0	74.8	1.4	145.2
Amortisation of intangible assets	24.3	5.3	19.5	2.0	0.3	5.8	57.2
Impairment of intangible assets	–	0.8	–	–	–	17.2	18.0

## Primary segments – management structure

Year ended 30 September 2009	UK and Ireland £m	Continental Europe £m	Northern Europe £m	North America £m	Airlines Germany £m	Corporate £m	Total £m
<b>Balance sheet</b>							
<b>Assets</b>							
Segment assets	3,833.0	1,869.3	1,659.2	318.8	876.9	3,763.3	12,320.5
Inter-segment eliminations							(5,761.2)
							6,559.3
Investments in associates and joint ventures							36.0
Tax and deferred tax assets							476.0
<b>Total assets</b>							<b>7,071.3</b>
<b>Liabilities</b>							
Segment liabilities	2,643.6	1,289.2	917.3	270.1	617.6	2,939.1	8,676.9
Inter-segment eliminations							(4,750.7)
							3,926.2
Tax and deferred tax liabilities							192.4
Borrowings and obligations under finance leases							1,225.5
<b>Total liabilities</b>							<b>5,344.1</b>

Inter-segment sales are charged at prevailing market prices.

Segment assets consist primarily of goodwill, other intangible assets, property, plant and equipment, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise trade and other payables, revenue received in advance and provisions.

Capital additions comprise additions to property, plant and equipment (note 14) and other intangible assets (note 13).



#### 4. Personnel expenses

	2009 £m	2008 £m
Wages and salaries	925.4	759.9
Social security costs	115.1	96.8
Share-based payments – equity settled	8.3	3.1
Defined benefit pension costs (see note 37)	17.9	20.0
Other pension costs (see note 37)	20.1	16.5
	<b>1,086.8</b>	<b>896.3</b>

The average number of employees of the Group during the period was:	2009 Number	2008 Number
UK and Ireland	16,916	16,738
Continental Europe	6,760	7,186
Northern Europe	2,723	2,744
North America	1,220	1,432
Airlines Germany	2,342	2,179
Corporate	167	170
	<b>30,128</b>	<b>30,449</b>

Disclosures of Directors' remuneration, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Services Authority are on pages 59 and 60 within the Remuneration report and form part of these audited financial statements. Disclosures in respect of remuneration of key management personnel are included in note 38.

#### 5. Net operating expenses

	2009 £m	2008 £m
Advertising expenses	176.7	159.7
Rents and expenses for building maintenance	156.2	120.2
Information technology costs	90.8	94.6
Travel expenses and ancillary personnel expenses	68.0	66.6
Telecommunications costs	45.5	38.3
Legal and consultancy fees	51.7	41.6
Impairment of current and non-current assets	41.8	23.2
Insurance	14.3	15.5
Training expenses	11.9	12.1
Other taxes	5.7	8.5
Other operating expenses	72.4	81.5
	<b>735.0</b>	<b>661.8</b>

## Notes to the financial statements continued

**6. Exceptional items**

	2009 £m	2008 £m
Property costs, redundancy and other costs incurred in integrating the Thomas Cook and MyTravel businesses	(56.6)	(106.7)
Property costs, redundancy and other costs incurred in other business integrations and reorganisations*	(112.8)	(46.4)
Disposal of property, plant and equipment	(3.9)	(1.7)
Impairment of assets	–	(2.5)
Other expenses incurred as a result of the merger	–	(14.8)
Fuel-related exceptionals	(20.7)	–
Other exceptional operating events**	(21.9)	(7.5)
<b>Exceptional items included within operating profit</b>	<b>(215.9)</b>	<b>(179.6)</b>

Exceptional items have been included in the income statement as follows:

Cost of providing tourism services	(58.7)	(13.0)
Personnel expenses	(59.7)	(47.0)
Depreciation and amortisation	(9.2)	(0.4)
Net operating expenses	(84.4)	(117.5)
Loss on disposal of businesses and property, plant and equipment	(3.9)	(1.7)
	<b>(215.9)</b>	<b>(179.6)</b>

**Share of associates' exceptional items**

Loss on disposal of associate	(2.2)	–
	<b>(2.2)</b>	<b>–</b>

**Exceptional finance income/(costs)**

Loss on revaluation of trading securities	(10.6)	(13.9)
Impact of financial market volatility	11.4	(12.9)
	<b>0.8</b>	<b>(26.8)</b>

<b>Total exceptional items</b>	<b>(217.3)</b>	<b>(206.4)</b>
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\* The £112.8m above relates to the integration of other acquisitions made last year and this, and other restructuring projects that have been undertaken across the Thomas Cook Group. The restructuring projects largely reflect changes made to underlying business processes and systems in the UK, Germany, the Western Europe markets and Canada to improve efficiency and cost leadership across the Group.

\*\* Other exceptional operating items of £21.9m include aborted acquisition costs and losses resulting from other exceptional operating events that are not expected to recur.

Net exceptional finance income in the year was £0.8m (2008: cost of £26.8m). The net cost in 2008 included £12.9m relating to the exceptional element of the phasing impact of marking to market the forward points on our foreign currency hedging, which arose in September 2008 as a result of the global banking crisis. In 2009, £11.4m of this unwound, but was offset by £10.6m of additional revaluation losses on trading securities. The Group has now disposed of all of its trading securities.

**7. Finance income**

	2009 £m	2008 £m
Income from loans included in financial assets	1.0	1.0
Other interest and similar income	11.1	23.3
Expected return on pension plan assets	38.4	41.9
Fair value gains on derivative financial instruments	0.7	2.2
	<b>51.2</b>	<b>68.4</b>

## 8. Finance costs

	2009 £m	2008 £m
Interest payable	85.3	40.9
Finance costs in respect of finance leases	22.5	22.2
Interest cost on pension plan liabilities	50.1	41.9
Forward points on future hedging contracts	(10.0)	12.8
Other finance costs (including discounting charges)	7.6	9.0
	<b>155.5</b>	<b>126.8</b>
Loss on revaluation of trading securities (note 6)	10.6	13.9
Impact of financial market volatility (note 6)	(11.4)	12.9
	<b>154.7</b>	<b>153.6</b>

The forward points on future hedging contracts are included within finance costs. This resulted in a pre-exceptional gain in 2009 of £10.0m (2008: loss of £12.8m).

## 9. Profit before tax

	2009 £m	2008 £m
Profit before tax for the period has been arrived at after charging/(crediting):		
Exceptional operating items (see note 6)	215.9	179.6
Including: Impairment of property, plant and equipment	–	1.3
Impairment of intangible assets	18.0	5.5
Depreciation of property, plant and equipment – owned assets	111.6	76.5
– held under finance leases	33.6	34.2
Amortisation of intangible assets	22.4	17.3
Amortisation of business combination intangibles	34.8	49.1
Cost of inventories recognised as expense	26.8	36.9
Loss on disposal of associate	2.2	–
Operating lease rentals payable – hire of aircraft and aircraft spares	101.9	97.6
– other	93.3	67.1
Net foreign exchange gains	(57.6)	(10.8)
Personnel expenses (see note 4)	1,086.8	896.3
Auditors' remuneration (see below)	3.6	4.7

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2009 £m	2008 £m
<b>PricewaterhouseCoopers LLP</b>		
Fees payable to the Company's auditors for the audit of the Company's financial statements	0.2	0.2
Fees payable to the Company's auditors and their associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	2.0	1.6
<b>Total audit fees</b>	<b>2.2</b>	<b>1.8</b>
Other services pursuant to legislation	0.3	0.5
Tax services	0.3	0.7
Information technology services	–	0.2
Valuation and actuarial services	0.2	0.1
Recruitment and remuneration services	0.5	1.3
All other services	0.1	0.1
<b>Total non-audit fees</b>	<b>1.4</b>	<b>2.9</b>
<b>Total fees</b>	<b>3.6</b>	<b>4.7</b>

In addition to the above, £56,000 (2008: £56,000) has been incurred in respect of the audits of the Group pension schemes.

A description of the work of the Audit Committee is set out in the Corporate Governance report on pages 47 and 48 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## Notes to the financial statements continued

## 10. Tax

	2009 £m	2008 £m
<b>Analysis of tax charge in the period</b>		
<b>Current tax</b>		
UK		
corporation tax (credit)/charge for the period	(2.5)	2.7
reimbursements in respect of prior periods	(1.4)	(1.2)
	(3.9)	1.5
Overseas		
corporation tax charge for the period	27.3	41.1
(reimbursements)/income in respect of prior periods	(4.6)	4.5
	22.7	45.6
<b>Total current tax</b>	<b>18.8</b>	<b>47.1</b>
<b>Deferred tax</b>		
tax charge/(credit) for the period	9.2	(25.9)
adjustments in respect of prior periods	9.8	(16.4)
<b>Total deferred tax</b>	<b>19.0</b>	<b>(42.3)</b>
<b>Total tax charge</b>	<b>37.8</b>	<b>4.8</b>
<b>Tax reconciliation</b>		
Profit before tax	56.1	48.4
Expected tax charge at the UK corporation tax rate of 28% (2008: 28.91%)	15.7	14.0
Impact of changes in tax rates	–	0.9
Income not liable for tax	(14.6)	(6.7)
Expenses not deductible for tax purposes	5.6	6.9
Losses for which tax relief is not available	30.6	4.4
Difference in rates of tax suffered on overseas earnings	1.7	(6.7)
Utilisation of tax losses not previously recognised	(1.7)	(1.5)
Recognition of timing differences not previously recognised	(2.9)	2.7
Income tax charges/(credits) in respect of prior periods	3.8	(13.1)
Other	(0.4)	3.9
<b>Tax charge</b>	<b>37.8</b>	<b>4.8</b>

In addition to the amount charged to the income statement, deferred tax relating to actuarial losses on pension schemes and the fair value of derivative financial instruments of £120.3m has been credited directly in equity (2008: charge of £21.2m).

UK corporation tax is calculated at 28% (2008: 28.91%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Surplus losses not recognised in deferred tax of £679.9m (2008: £531.0m) are available in the UK and Germany for offset against future profits.

## 11. Dividends

	2009 £m	2008 £m
Interim dividend paid of 3.75 pence per share (2008: 3.25 pence)	31.6	29.4
Proposed final dividend for the period of 7.0 pence per share (2008: 6.5 pence)	60.1	55.8
	91.7	85.2

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

## 12. Earnings per share

The calculations for earnings per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown excludes 5.1m shares held by the employee share ownership trusts (2008: 2.6m).

Basic and diluted earnings per share	2009 £m	2008 restated £m
Net profit attributable to equity holders of the parent	15.8	43.9
	millions	millions
Weighted average number of shares for basic earnings per share	853.7	947.6
Effect of dilutive potential ordinary shares – share options*	5.2	0.5
Weighted average number of shares for diluted earnings per share	858.9	948.1
	pence	Restated pence
<b>Basic earnings per share</b>	<b>1.9</b>	4.6
<b>Diluted earnings per share</b>	<b>1.8</b>	4.6
	2009 £m	2008*** £m
Pro forma pre exceptional net profit attributable to equity holders of the parent*	225.3	229.0
	millions	millions
Weighted average number of shares for basic earnings per share	853.7	949.9
Effect of dilutive potential ordinary shares – share options**	5.2	0.5
Weighted average number of shares for diluted earnings per share	858.9	950.4
	pence	pence
<b>Basic earnings per share</b>	<b>26.4</b>	24.1
<b>Diluted earnings per share</b>	<b>26.2</b>	24.1

\* Pro forma pre exceptional net profit attributable to equity holders of the parent is derived from the pre exceptional profit before tax for the 12 months to September 2009 of £308.2m (12 months to September 2008: £309.3m) and deducting a notional tax charge of £82.9m (2008: £80.3m).

\*\* Awards of shares under the Thomas Cook Performance Share Plan and Buy As You Earn Scheme will be satisfied by shares held in trust and therefore are potentially dilutive. The remainder of the share schemes will be satisfied by the purchase of existing shares in the market and will therefore not result in any dilution of earnings per share.

\*\*\* The pro forma pre exceptional basis and diluted earnings per share for 2008 is for the 12 months ended 30 September 2008.

## Notes to the financial statements continued

**13. Intangible assets**

	2009 £m	2008 restated £m
Goodwill	<b>3,187.9</b>	2,931.5
Business combination intangible assets	<b>409.3</b>	372.7
Other	<b>177.9</b>	133.9
	<b>3,775.1</b>	3,438.1

**Goodwill**

<b>Cost</b>	£m
At 1 November 2007	2,569.4
Additions (restated)	302.3
Exchange differences	161.1
<b>At 30 September 2008</b>	<b>3,032.8</b>
Additions (note 16)	48.0
Exchange differences	224.4
<b>At 30 September 2009</b>	<b>3,305.2</b>

**Accumulated impairment losses**

At 1 November 2007	88.0
Exchange differences	13.3
At 30 September 2008	101.3
Exchange differences	16.0
<b>At 30 September 2009</b>	<b>117.3</b>

**Carrying amount**

<b>At 30 September 2009</b>	<b>3,187.9</b>
At 30 September 2008	<b>2,931.5</b>

The carrying value of goodwill analysed by business segment is as follows:

	2009 £m	2008 restated £m
UK and Ireland	<b>2,104.8</b>	1,954.6
Northern Europe	<b>690.9</b>	627.8
Continental Europe	<b>203.7</b>	178.5
North America	<b>165.6</b>	150.6
Airlines Germany	<b>22.9</b>	20.0
	<b>3,187.9</b>	2,931.5

In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 30 September 2009, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections discounted at a pre-tax rate of 9% to 13% (2008: 10% to 13%) reflecting specific risks relating to the relevant cash generating units.

The key assumptions used in the value in use calculations are those regarding the discount rates, revenue and cost growth rates and the level of capital expenditure required during the period. The Group prepares cash flow forecasts derived from the most recently approved annual budgets and three year plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset. Cash flow forecasts for years beyond the three year plan period are extrapolated based on estimated growth rates which do not exceed the average long-term growth rates for the relevant markets.

There were no impairment losses recognised on goodwill during the year (2008: £nil) and no reasonable change to the assumptions would lead to a material impairment.

### 13. Intangible assets continued Business combination intangibles

	Brands and customer relationships £m	Order backlog £m	Computer software £m	Other £m	Total £m
<b>Cost</b>					
At 1 November 2007	304.8	34.0	12.5	–	351.3
Additions (restated)	83.2	3.5	–	3.3	90.0
Exchange differences	13.4	3.0	0.9	(0.2)	17.1
At 30 September 2008	401.4	40.5	13.4	3.1	458.4
Additions (note 16)	47.4	0.2	–	–	47.6
Disposal of subsidiaries	(2.4)	–	–	–	(2.4)
Exchange differences	29.1	0.4	1.4	–	30.9
<b>At 30 September 2009</b>	<b>475.5</b>	<b>41.1</b>	<b>14.8</b>	<b>3.1</b>	<b>534.5</b>

#### Amortisation

At 1 November 2007	9.5	19.6	1.0	–	30.1
Charge for the period (restated)	28.6	17.4	3.1	–	49.1
Impairment losses	3.5	–	–	–	3.5
Exchange differences	0.6	2.3	0.1	–	3.0
At 30 September 2008	42.2	39.3	4.2	–	85.7
Charge for the year	30.0	1.4	3.4	–	34.8
Exchange differences	3.7	0.3	0.7	–	4.7
<b>At 30 September 2009</b>	<b>75.9</b>	<b>41.0</b>	<b>8.3</b>	<b>–</b>	<b>125.2</b>

#### Carrying amount

<b>At 30 September 2009</b>	<b>399.6</b>	<b>0.1</b>	<b>6.5</b>	<b>3.1</b>	<b>409.3</b>
At 30 September 2008	359.2	1.2	9.2	3.1	372.7

The initial valuation of business combination intangibles is based on applicable projected future cash flows discounted at an appropriate discount rate. Customer relationships are being amortised over periods of 1 to 15 years and computer software over a period of four years. Order backlog has been amortised over the period from acquisition to departure. Other includes the fair value attributed to a foreign exchange licence from the acquisition of Thomas Cook India, which is being amortised over 25 years.

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. The nature of the industry we operate in is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend. The Group annually tests the carrying value of indefinite lived intangibles for impairment on a value in use basis consistent with that disclosed for goodwill on page 80.

The carrying value of brands with an indefinite life analysed by business segment is as follows:

	2009 £m	2008 £m
Northern Europe	127.2	115.5
UK and Ireland	70.6	70.6
Continental Europe (restated)	23.6	20.5
North America (restated)	21.8	22.1
	<b>243.2</b>	228.7

## Notes to the financial statements continued

**13. Intangible assets continued****Other intangible assets**

	Concessions and computer software		Other	Total £m
	Purchased £m	Internally generated £m	Purchased £m	
<b>Cost</b>				
At 1 November 2007	164.2	29.9	0.6	194.7
Additions	44.8	15.4	–	60.2
Acquisitions (restated)	7.1	1.1	0.1	8.3
Exchange differences	15.7	4.1	–	19.8
Reclassification	(54.8)	54.8	–	–
Disposals	(1.4)	(3.5)	–	(4.9)
At 30 September 2008	175.6	101.8	0.7	278.1
Additions	36.1	30.2	2.2	68.5
Acquisitions (note 16)	–	0.5	3.8	4.3
Exchange differences	27.6	6.6	0.3	34.5
Disposals	(0.9)	(5.0)	–	(5.9)
<b>At 30 September 2009</b>	<b>238.4</b>	<b>134.1</b>	<b>7.0</b>	<b>379.5</b>
<b>Amortisation</b>				
At 1 November 2007	97.0	16.7	0.1	113.8
Charge for the period	6.9	10.0	0.4	17.3
Impairment losses	1.0	1.0	–	2.0
Exchange differences	10.9	2.6	–	13.5
Transfer from non-current assets held for sale	(36.3)	36.3	–	–
Disposals	(0.9)	(1.5)	–	(2.4)
At 30 September 2008	78.6	65.1	0.5	144.2
Charge for the year	7.4	13.4	1.6	22.4
Impairment losses	18.0	–	–	18.0
Exchange differences	14.9	3.7	–	18.6
Disposals	(0.4)	(1.2)	–	(1.6)
<b>At 30 September 2009</b>	<b>118.5</b>	<b>81.0</b>	<b>2.1</b>	<b>201.6</b>
<b>Carrying amount</b>				
<b>At 30 September 2009</b>	<b>119.9</b>	<b>53.1</b>	<b>4.9</b>	<b>177.9</b>
At 30 September 2008	97.0	36.7	0.2	133.9

Computer software is amortised on a straight-line basis over its estimated useful life of between three and ten years.

In the prior year, as a result of the integration of Thomas Cook and MyTravel, the Directors reviewed the classification of intangible fixed assets and as a consequence certain reclassifications were made to more appropriately reflect the nature of the asset.

Concessions include the value of licences granted to the Group, as well as copyrights and trademarks and similar items. Licences are amortised over the period of the licence, up to a maximum of ten years, and other items over their estimated useful lives of between three and five years.

**14. Property, plant and equipment**

	Aircraft and aircraft spares £m	Investment property £m	Other property, plant and equipment			Total £m
			Freehold land and buildings £m	Short leaseholds £m	Other fixed assets £m	
<b>Cost</b>						
At 1 November 2007	1,247.1	–	187.3	130.5	202.5	520.3
Additions	42.2	–	1.0	10.0	29.9	40.9
Acquisitions (restated)	–	–	4.1	1.3	8.3	13.7
Exchange differences	165.7	1.6	25.4	7.4	23.9	56.7
Transfer from non-current assets held for sale	–	14.1	–	–	–	–
Reclassification	8.8	–	(4.5)	35.0	(39.3)	(8.8)
Disposals	(22.1)	–	(0.1)	(12.1)	(7.4)	(19.6)
<b>At 30 September 2008</b>	<b>1,441.7</b>	<b>15.7</b>	<b>213.2</b>	<b>172.1</b>	<b>217.9</b>	<b>603.2</b>
Additions	86.5	–	0.9	14.8	27.3	43.0
Acquisitions (note 16)	–	–	–	0.5	1.4	1.9
Exchange differences	194.1	2.3	31.2	11.7	35.9	78.8
Disposals	(8.9)	–	(1.5)	(12.1)	(21.8)	(35.4)
<b>At 30 September 2009</b>	<b>1,713.4</b>	<b>18.0</b>	<b>243.8</b>	<b>187.0</b>	<b>260.7</b>	<b>691.5</b>
<b>Accumulated depreciation and impairment</b>						
At 1 November 2007	680.0	–	44.7	75.4	132.0	252.1
Charge for the period	78.8	–	5.9	8.8	17.2	31.9
Provision for impairment	–	–	–	–	1.3	1.3
Exchange differences	105.0	–	7.5	3.1	17.4	28.0
Reclassification	7.1	–	(3.3)	30.1	(33.9)	(7.1)
Disposals	(14.0)	–	–	(9.6)	(5.7)	(15.3)
<b>At 30 September 2008</b>	<b>856.9</b>	<b>–</b>	<b>54.8</b>	<b>107.8</b>	<b>128.3</b>	<b>290.9</b>
Charge for the year	105.1	–	7.2	11.1	21.8	40.1
Exchange differences	129.4	–	10.0	7.6	24.9	42.5
Disposals	(6.3)	–	(1.0)	(9.9)	(18.2)	(29.1)
<b>At 30 September 2009</b>	<b>1,085.1</b>	<b>–</b>	<b>71.0</b>	<b>116.6</b>	<b>156.8</b>	<b>344.4</b>
<b>Carrying amount</b>						
<b>At 30 September 2009</b>	<b>628.3</b>	<b>18.0</b>	<b>172.8</b>	<b>70.4</b>	<b>103.9</b>	<b>347.1</b>
At 30 September 2008	584.8	15.7	158.4	64.3	89.6	312.3

Freehold land with a cost of £38.7m (2008: £34.7m) has not been depreciated.

The cost of property, plant and equipment stated above does not include capitalised interest.

In the prior period, as a result of the integration of Thomas Cook and MyTravel, the Directors reviewed the classification of tangible fixed assets and as a consequence certain reclassifications were made to more appropriately reflect the nature of the asset.

The net book value of aircraft and aircraft spares includes £170.5m (2008: £267.3m) in respect of assets held under finance leases.

The net book value of other property, plant and equipment includes £15.8m (2008: £13.0m) in respect of assets held under finance lease.

**Capital commitments**

	2009 £m	2008 £m
Capital expenditure contracted but not provided for in the accounts	<b>127.8</b>	53.4

The 2009 capital commitments include £60.7m in relation to two aircraft that are currently held under operating leases which will come on balance sheet during 2010.

## Notes to the financial statements continued

## 15. Non-current asset investments

	Associates and joint ventures undertakings £m	Other investments		
		Available-for-sale financial assets £m	Loans & receivables £m	Total other investments £m
<b>Cost</b>				
At 1 October 2008	70.3	17.0	14.6	31.6
Disposals	(12.3)	(9.8)	–	(9.8)
Share of result of associates and joint ventures after tax	(3.8)	–	–	–
Dividend from associate	(0.3)	–	–	–
Interest received	–	–	(2.1)	(2.1)
Additional loan investment	3.7	–	0.7	0.7
Exchange differences	10.2	2.3	–	2.3
<b>At 30 September 2009</b>	<b>67.8</b>	<b>9.5</b>	<b>13.2</b>	<b>22.7</b>

## Amounts written off or provided

At 1 October 2008	27.6	2.2	–	2.2
Exchange differences	4.2	0.2	–	0.2
<b>At 30 September 2009</b>	<b>31.8</b>	<b>2.4</b>	<b>–</b>	<b>2.4</b>

## Carrying amount

<b>At 30 September 2009</b>	<b>36.0</b>	<b>7.1</b>	<b>13.2</b>	<b>20.3</b>
At 30 September 2008	42.7	14.8	14.6	29.4

## Associates

Investments in associated undertakings at 30 September 2009 included a 40% interest in Activos Turisticos S.A., an incoming agency and hotel company, and Hispano Alemana de Management Hotelero S.A., a hotel management company. Both companies are based in Palma de Mallorca, Spain. Investments also include a 25.1% interest in Oasis Company SAE, a hotel company in Egypt.

During the year the Group disposed of its 19.99% interest in Aqua Sol, a quoted hotel group based in Cyprus, for total consideration of £5.6m of which £1.5m was received in cash. The Group recognised a net loss on disposal of £2.2m.

## Joint venture

The Group's joint venture entity is Thomas Cook Personal Finance Limited. This is a joint venture arrangement with Barclays Bank, the Group's share being 50%.

Summarised financial information in respect of the associates and joint ventures is as follows:

	Joint venture 2009 £m	Associates 2009 £m	Joint venture 2008 £m	Associates 2008 £m
Total assets	114.0	248.9	86.1	267.8
Total liabilities	(133.4)	(116.5)	(98.3)	(115.6)
Net (liabilities)/assets	(19.4)	132.4	(12.2)	152.2
Group's share of net (liabilities)/assets	(9.7)	42.2	(6.1)	44.6
Revenue	4.2	125.2	(0.8)	146.8
(Loss)/ profit for the period	(7.4)	2.3	(7.8)	5.8
Group's share of associates and joint ventures (loss)/profit for the period	(3.7)	(0.1)	(3.9)	2.3

The financial statements of Activos Turisticos S.A. are made up to 31 October each year. The financial statements of the other associated undertakings are made up to 31 December each year, being their financial reporting date. For the purposes of applying the equity method of accounting for 2009, the financial statements of these undertakings for the year ended 31 December 2008 have been used together with management accounts for the period from 1 January 2009 to 30 September 2009.

## Other investments

Loans and receivables include £13.2m in respect of the Group's investment, as a member of Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises ordinary shares and loan notes carrying interest at 8% and 11% in the Airline Group.

Available-for-sale financial assets include £5.8m in respect of a 24.9% interest in Aldiana GmbH, a German tour operator. Aldiana is not accounted for under the equity method as the Group does not have significant influence over its activities. During the year, the Group disposed of its 10% interest in L'tur Tourismus AG, a German package tour operator.

During the year ended 30 September 2009, the Group recognised interest on fixed asset investments of £1.4m (2008: £0.5m).

There is no active market for the available-for-sale financial assets, consequently they are recorded at cost.

## 16. Subsidiaries and acquisitions

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest, is given in note 17 to the Company's separate financial statements. All of the subsidiary undertakings have been consolidated in the Group accounts.

Interpretation guidance included within SIC Interpretation 12 'Consolidation – Special Purpose Entities' indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing arrangements with the Group, should be interpreted as being controlled by the Group, and therefore subject to consolidation, even though the Group has no direct or indirect equity interest in those entities. As a consequence, the Group has consolidated three (2008: twelve) SPEs that own four (2008: eleven) aircraft operated by the Group on operating leases. In addition, during the year the operations of the German airline have been placed in a holding company in which the Group owns a 50.0023% direct interest. All risks and rewards continue to be held by the Group and under accounting standards the entity should be interpreted as 100% controlled and fully consolidated by the Group.

### Acquisitions made during the current year

#### Gold Medal

On 7 April 2009, the Group acquired a 50.01% economic interest (60% of the ordinary share capital) in Gold Medal International Limited, one of the UK's largest independent travel groups, consisting of an air and hotel consolidator, online booking site and luxury tour operator. For accounting purposes the Group is deemed to have acquired 100% of Gold Medal.

The purchase price was £65.6m of which £22.0m has been paid in cash and an estimated balance of £43.6m has been recognised in relation to the value of the options in place for the Group to purchase the remaining shareholding or for the vendor to sell it to the Group.

Details of the net assets acquired are set out in the table below:

	Carrying amount before business combination £m	Fair value adjustment £m	Amount recognised at acquisition date £m
<b>Net assets acquired</b>			
Intangible assets	0.5	44.2	44.7
Property, plant and equipment	1.8	–	1.8
Trade and other receivables	42.6	–	42.6
Tax asset	1.2	–	1.2
Cash and cash equivalents	24.0	–	24.0
Trade and other payables	(81.9)	–	(81.9)
Deferred tax asset/(liability)	1.1	(12.4)	(11.3)
	(10.7)	31.8	21.1
<b>Goodwill</b>			45.9
<b>Total consideration</b>			67.0
Satisfied by: cash and attributable costs			23.4
contingent consideration			43.6
			67.0

The purchase price of each asset component of the acquisition represents its provisional fair value, based on management's best estimates.

The acquired business contributed revenue of £59.5m and net profit of £4.6m to the Group for the period from acquisition to 30 September 2009.

#### Other

During the year, the Group concluded a number of smaller acquisitions, namely:

- 21 October 2008, 100% of Airtrack Services Limited;
- 2 February 2009, the net assets of Med Hotels Limited and its subsidiaries; and
- 1 March 2009, the lease rights and customer base of 36 Voyages Wasteels shops.

## Notes to the financial statements continued

**16. Subsidiaries and acquisitions continued**

Details of the net assets acquired are set out in the table below:

	Carrying amount before business combination £m	Fair value adjustment £m	Amount recognised at acquisition date £m
<b>Net assets acquired</b>			
Intangible assets	1.0	6.2	7.2
Property, plant and equipment	0.1	–	0.1
Trade and other receivables	19.1	–	19.1
Cash and cash equivalents	0.3	–	0.3
Trade and other payables	(18.5)	–	(18.5)
	2.0	6.2	8.2
<b>Goodwill</b>			1.7
<b>Negative goodwill</b>			(3.0)
<b>Total consideration</b>			6.9
Satisfied by: cash and attributable costs			5.0
contingent consideration			0.6
recovery of receivable, previously written off			1.3
			6.9

The purchase price of each asset component of the acquisition represents its provisional fair value, based on management's best estimates.

The acquired businesses contributed revenue of £6.4m and net loss of £0.2m to the Group for the period from acquisition to 30 September 2009.

**Lufthansa payment**

During the year, the Group paid £71.8m for Lufthansa AG's 24.9% holding of Condor. As prior to acquiring Lufthansa AG's share, Condor was 100% consolidated by the Group, this payment is in effect settlement of deferred consideration.

**India**

Due to a rights issue by Thomas Cook India in January 2009 the Group's share in the company increased from 74.9% to 77.63%.

The rights issue has had the following impact on the balance sheet:

	£m
Goodwill	0.4
Minority Interest	(5.1)
	(4.7)
Satisfied by: Cash received from minority shareholders	(4.7)

**Pro forma revenue and net profit**

If all of the acquisitions had occurred on 1 October 2008, for the year ended 30 September 2009 they would have contributed £154.1m to consolidated revenue and a loss of £0.7m to consolidated net profit, before accounting for £4.9m of amortisation of business combination intangibles. Pro forma revenue and net profit are based on available management information.

**Net cash outflow from acquisitions**

	Gold Medal £m	Other £m	Lufthansa £m	India £m	Total £m
<b>Net cash outflow from acquisitions</b>					
Cash consideration for shares (including acquisition costs)	(23.4)	(5.0)	(71.8)	4.7	(95.5)
Cash and cash equivalents net of overdraft acquired	24.0	0.3	–	–	24.3
<b>Total consideration</b>	0.6	(4.7)	(71.8)	4.7	(71.2)

**Changes to the prior period acquisitions**

During the year the fair value adjustments related to the Jet Tours and TriWest Travel Holdings acquisitions were finalised. In accordance with IFRS 3, the fair value adjustments have been recognised from the date of acquisition and the comparative figures have been restated.

### Jet Tours

The restatement has had the following impact on the Group balance sheet as at the date of acquisition (4 August 2008) and as at 30 September 2008:

	At the date of acquisition £m	As at 30 September 2008 £m
<b>Balance sheet</b>		
Intangible assets		
Goodwill	(15.9)	(16.1)
Other intangible assets	22.0	21.1
Property, plant and equipment	(0.5)	(0.5)
Trade and other receivables – current	(1.5)	(1.5)
Trade and other payables – current	(0.3)	(0.3)
Short-term provisions	(1.1)	(1.1)
Long-term provisions	(1.8)	(1.8)
Deferred tax asset	(0.9)	(0.6)
	–	(0.8)
<b>Income statement – for the eleven months ended 30 September 2008</b>		
Depreciation and amortisation		(1.1)
Tax		0.3
		(0.8)

### TriWest Travel Holdings

The restatement has had the following impact on the Group balance sheet as at the date of acquisition (1 August 2008) and as at 30 September 2008:

	At the date of acquisition £m	As at 30 September 2008 £m
<b>Balance sheet</b>		
Intangible assets		
Goodwill	(3.9)	(4.2)
Other intangible assets	4.5	4.9
Trade and other payables – non-current	0.8	0.8
Deferred tax liability	(1.4)	(1.5)
	–	–
<b>17. Inventories</b>		
	<b>2009</b>	2008
	<b>£m</b>	<b>£m</b>
Goods held for resale	<b>16.0</b>	19.5
Raw materials and supplies	<b>11.0</b>	4.7
	<b>27.0</b>	24.2

## Notes to the financial statements continued

**18. Trade and other receivables**

	2009 £m	2008 £m
<b>Non-current assets</b>		
Deposits and prepayments	89.1	87.2
Loans	11.2	10.1
Securities	4.1	3.8
Trade receivables	0.1	0.1
Amount owed by associates, participations and joint ventures	–	2.1
Other receivables	9.3	23.1
	<b>113.8</b>	<b>126.4</b>
<b>Current assets</b>		
Trade receivables	394.3	323.5
Amounts owed by associates and joint ventures	6.4	10.4
Amounts owed by other related parties	1.3	11.7
Deposits and prepayments	401.2	349.5
Loans	4.7	19.9
Securities	–	129.2
Other taxes	38.5	40.2
Other receivables	85.2	131.6
	<b>931.6</b>	<b>1,016.0</b>

The average credit period taken on invoicing of leisure travel services is 14 days (2008: 11 days). No interest is charged on the receivables. The credit risk in respect of direct receivables from customers is limited as payment is required in full before the services are provided. In the case of travel services sold by third-party agents, the credit risk depends on the credit worthiness of those third parties, but this risk is also limited because of the relatively short period of credit.

Deposits and prepayments include amounts paid in advance to suppliers of hotel and other services in order to guarantee the provision of those supplies and historically have covered periods from 1 to 24 months in advance. The Group's current policy is that deposits and prepayments will normally only be made for periods of up to twelve months in advance. There is a credit risk in respect of the continued operation of those suppliers during those periods. Deposits and prepayments also include £65.0m (2008: £63.3m) of deposits on aircraft lease arrangements which are primarily attributable to the UK Airline.

Securities include money market securities amounting to £4.0m (2008: £3.7m) purchased as collateral against liabilities arising from part-time retirement contracts at Thomas Cook AG, which are classified as available for sale financial assets.

In the prior period, current asset securities of £129.2m consisted of a managed investment fund established to optimise the utilisation of the Group's surplus liquidity. The fund was classified as held-for-trading investments and consisted of corporate and government bonds. These securities were disposed of during the current year.

In the prior period, loans included advances of £2.1m to two hotel companies in which the Group had a participating interest. These loans were interest bearing at rates based on Euribor and were unsecured. The advances were settled in full during the year.

The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Allowances for doubtful debts in respect of trade receivable balances are managed in the business units where the debts arise and are based on local management experience. Factors that are considered include the age of the debt, previous experience with the counterparty and local trading conditions. Trade receivables arise from individual customers as well as businesses in the travel sector. The Directors do not consider there to be significant concentration of credit risk relating to trade and other receivables.

**Movement in allowances for doubtful receivables**

	2009 £m	2008 £m
At beginning of period	49.8	51.0
Additional provision	25.9	11.8
Exchange differences	6.2	4.8
Acquisitions (restated)	–	3.1
Receivables written off	(13.1)	(16.7)
Unused amounts released	(7.6)	(4.2)
<b>At end of period</b>	<b>61.2</b>	<b>49.8</b>

At the period end, trade and other receivables of £234.7m (2008: £182.0m) were past due but not impaired. The analysis of the age of these financial assets is set out below.

#### Ageing analysis of overdue trade and other receivables

	2009 £m	2008 £m
Less than one month overdue	102.1	89.4
Between one and three months overdue	60.1	33.6
Between three and twelve months overdue	49.9	42.8
More than twelve months overdue	22.6	16.2
	<b>234.7</b>	<b>182.0</b>

Trade and other receivables are not subject to restrictions on title and no collateral is held as security.

The Directors consider that the carrying amounts of trade and other receivables approximates their fair values.

#### 19. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	303.2	472.3
Term deposits with a maturity of less than three months	247.0	289.0
	<b>550.2</b>	<b>761.3</b>

Cash and cash equivalents largely comprise bank balances denominated in sterling, euro and other currencies for the purpose of settling current liabilities as well as balances arising from agency collection on behalf of the Group's travel agencies.

Included within the above balances is an amount of £46.2m (2008: £56.4m) held within escrow accounts in the United States and Canada in respect of local regulatory requirements. Also included within the above balances is an amount of £13.6m (2008: £55.0m) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company, and £0.4m (2008: £15.7m) held in other securities. These balances are considered to be restricted.

The Directors consider that the carrying amount of these assets approximates to their fair value.

#### 20. Trade and other payables

	2009 £m	2008 £m
<b>Current liabilities</b>		
Trade payables	1,052.1	850.1
Amounts owed to associated undertakings and participations	5.6	3.9
Amounts owed to other related parties	2.8	1.5
Social security and other taxes	42.2	40.2
Accruals and deferred income (restated)	668.2	769.7
Other payables	133.8	190.6
	<b>1,904.7</b>	<b>1,856.0</b>
<b>Non-current liabilities</b>		
Accruals and deferred income	9.9	29.8
Other payables (restated)	7.2	6.3
	<b>17.1</b>	<b>36.1</b>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

The average credit period taken for trade purchases is 57 days (2008: 45 days).

## Notes to the financial statements continued

**21. Borrowings**

	2009 £m	2008 £m
<b>Short-term borrowings</b>		
Unsecured bank loans and other borrowings	401.8	198.8
Unsecured bank overdrafts	43.2	13.8
	<b>445.0</b>	212.6
<b>Current portion of long-term borrowings</b>	<b>174.1</b>	143.4
	<b>619.1</b>	356.0
<b>Long-term borrowings</b>		
Bank loans – repayable within one year	174.1	143.4
– repayable between one and five years	305.4	399.1
– repayable after five years	15.5	17.0
	<b>495.0</b>	559.5
Less: amounts due for settlement within one year shown under current liabilities	<b>(174.1)</b>	(143.4)
<b>Amount due for settlement after one year</b>	<b>320.9</b>	416.1

**Borrowings by class**

	2009		2008	
	Current £m	Non-current £m	Current £m	Non-current £m
Group committed credit facility	498.6	227.9	218.1	338.4
Aircraft related bank loans	55.3	37.8	69.9	43.8
Other bank borrowings	65.2	55.2	68.0	33.9
	<b>619.1</b>	<b>320.9</b>	356.0	416.1

In May 2008, the Group entered into a €1.8bn committed credit facility maturing in May 2011. The facility comprises term loan, revolving credit and bonding facilities. €320m of the revolving credit facilities were originally made available for the Group in respect of the proposed transaction between Condor and Air Berlin. During the year, the Group entered into an agreement with its lenders to change the designation of this portion of the facility to enable it to be used to meet the aircraft refinancing needs of the Group. This re-designation became effective on 1 October 2009 and the facilities were fully available to the Group from this date.

Amounts are repayable under the term loan facility at fixed intervals with a final bullet payment at maturity. As at 30 September 2009, the Group had repaid a total of €75m of term loans.

The Directors consider that the fair value of the Group's borrowings with a carrying value of £940.0m is £943.9m (2008: carrying value £772.1m; fair value £770.0m). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to maturity or repayment as at the period end. For items maturing in less than one year, the Directors feel that the fair value is equal to the carrying amount.

**Borrowing facilities**

As at 30 September 2009, the Group had undrawn committed debt, guarantee and bonding facilities of £463.2m (2008: £558.7m).

**22. Obligations under finance leases**

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	2009 £m	2008 £m
Amounts payable under finance leases:				
Within one year	246.7	197.7	237.8	182.6
Between one and five years	37.1	229.1	33.0	215.1
After five years	23.7	22.6	14.7	13.2
	<b>307.5</b>	449.4	<b>285.5</b>	410.9
Less: future finance charges	<b>(22.0)</b>	(38.5)	–	–
Present value of lease obligations	<b>285.5</b>	410.9	<b>285.5</b>	410.9
Less: amount due for settlement within 12 months (shown under current liabilities)			<b>(237.8)</b>	(182.6)
Amount due for settlement after 12 months			<b>47.7</b>	228.3

The currency analysis of amounts payable under finance leases is:

	2009 £m	2008 £m
Euro	193.4	302.5
US dollar	92.0	108.4
Indian rupee	0.1	–
	<b>285.5</b>	410.9

Finance leases principally relate to aircraft and aircraft spares.

No arrangements have been entered into for contingent rental payments.

The Directors consider that the fair value of the Group's finance lease obligations with a carrying value of £285.5m was £294.5m at 30 September 2009 (2008: carrying value £410.9m; fair value £409.1m). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to repayment as at the period end.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

#### Sub-lease rentals receivable

During the year, two aircraft (2008: two aircraft) held under finance leases were sub-let on operating leases for the whole or part of the period. Details of income receivable under operating sub-leases are provided in note 34.

### 23. Financial instruments

#### Carrying values of financial assets and liabilities

The carrying values of the Group's financial assets and liabilities as at 30 September 2009 and 30 September 2008 are as set out below.

	Held for trading £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Available-for-sale £m	Financial liabilities at amortised cost £m
<b>At 30 September 2009</b>					
Non-current asset investments	–	–	13.2	7.1	–
Trade and other receivables	–	–	590.1	4.1	–
Cash and cash equivalents	–	–	550.2	–	–
Trade and other payables	–	–	–	–	(1,739.0)
Borrowings	–	–	–	–	(940.0)
Obligations under finance leases	–	–	–	–	(285.5)
Derivative financial instruments	(0.9)	(130.1)	–	–	–
	<b>(0.9)</b>	<b>(130.1)</b>	<b>1,153.5</b>	<b>11.2</b>	<b>(2,964.5)</b>

	Held for trading £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Available-for-sale £m	Financial liabilities at amortised cost £m
<b>At 30 September 2008</b>					
Non-current asset investments	–	–	14.6	14.8	–
Trade and other receivables (restated)	128.8	–	613.7	3.8	–
Cash and cash equivalents	–	–	761.3	–	–
Trade and other payables	–	–	–	–	(1,733.0)
Borrowings	–	–	–	–	(772.1)
Obligations under finance leases	–	–	–	–	(410.9)
Derivative financial instruments	7.2	68.8	–	–	–
	<b>136.0</b>	<b>68.8</b>	<b>1,389.6</b>	<b>18.6</b>	<b>(2,916.0)</b>

## Notes to the financial statements continued

**23. Financial instruments continued****Derivative financial instruments**

The fair values of derivative financial instruments as at 30 September 2009 were:

	Interest rate swaps £m	Currency contracts £m	Fuel contracts £m	Total £m
At 1 November 2007	(4.1)	(90.5)	54.8	(39.8)
Fair values of derivatives at acquisition	–	(0.5)	–	(0.5)
Movement in fair value during the period	(1.1)	211.2	(93.8)	116.3
At 1 October 2008	(5.2)	120.2	(39.0)	76.0
Movement in fair value during the year	(15.9)	(125.4)	(65.8)	(207.1)
<b>At 30 September 2009</b>	<b>(21.1)</b>	<b>(5.2)</b>	<b>(104.8)</b>	<b>(131.1)</b>

	2009 £m	2008 £m
Non-current assets	4.9	55.6
Current assets	133.9	261.6
Current liabilities	(251.1)	(174.3)
Non-current liabilities	(18.8)	(66.9)
	<b>(131.1)</b>	76.0

The Group uses derivative instruments to hedge against significant future transactions and cash flows denominated in foreign currencies. The Group enters into a variety of foreign currency forward contracts and options in the management of its exchange rate exposures.

The instruments used are primarily denominated in the currencies of the Group's principal markets and the currency exposures in those markets, predominantly euro, US dollar and sterling, and are typically established for periods of twelve to twenty-four months in advance of a season to which the expected cash exposures pertain.

The Group undertakes hedging transactions to limit the risk of unfavourable changes in the jet fuel prices and to reduce the weighted average cost of fuel. As at 30 September 2009, the Group had put in place hedging transactions for fuel out to February 2011. The Group uses a combination of fixed price swap contracts in either crude oil, gas oil and kerosene and net purchased collars in crude oil to hedge against its fuel price risk.

The Group is also subject to risks arising from interest rate movements in connection with the financing of aircraft and other assets. Interest rate swaps and cross currency swaps are designated as cash flow hedges of the interest rate and the euro, US dollar and sterling currency risk on such borrowings. Interest rate currency swaps are reported within interest rate derivatives. The maturities of interest rate derivatives extend out to May 2014.

The fair values of the Group's derivative financial instruments set out above have been determined by reference to prices available from the markets in which the instruments are traded.

	2009 £m	2008 £m
Fair value of derivatives designated and effective as cash flow hedges deferred in equity at period end	<b>(130.1)</b>	68.8

During the year, a gain of £24.6m (2008: £177.8m) was transferred from the hedging reserve to the income statement following recognition of the hedged transactions. The amount included in each line item in the income statement is shown below. In addition, a gain of £21.4m was recognised in the income statement in respect of the ineffective portion of cash flow hedges (2008: £25.7m loss).

	2009 £m	2008 £m
Cost of providing tourism services	24.6	177.8
Finance costs	21.4	(25.7)
	<b>46.0</b>	152.1

## 24. Financial risk

The Group is subject to risks related to changes in interest rates, exchange rates, fuel prices, counterparty credit and liquidity within the framework of its business operations.

### Interest rate risk

The Group is subject to risks arising from interest rate movements in connection with its bank debt, aircraft financing and cash investments. Interest rate swaps and interest rate collars are used to manage these risks and are usually designated as cash flow hedges of the interest rate.

### Currency risk

The Group has activities in a large number of countries and is therefore subject to the risk of exchange rate fluctuations. Currency risks arise in connection with the sourcing of services from destinations outside the source market. In addition, US dollar exposure arises on the procurement of fuel and operating supplies for aircraft, as well as investments in aircraft.

The Group requires subsidiaries to identify and appropriately hedge all trading exposures in line with established policies.

The Group uses currency forwards, currency swaps and plain vanilla currency options to manage currency risks and these are usually designated as cash flow hedges of forecast future transactions.

### Fuel price risk

Exposure to fuel price risk arises due to flying costs for the Group's aircraft. Fuel price contracts are entered into to manage the risk of adverse changes in the price of fuel. The Group's policy is to hedge up to 80% of the fuel requirement for the flight schedule concerned, with all fuel exposures hedged between 6 and 18 months prior to consumption. Hedging is implemented with a combination of fixed price contracts (swaps) and net purchased options, either in crude oil, gas oil or kerosene.

The market risks that the Group is subject to have been identified as interest rate risk, exchange rate risk and fuel price risk. The impact of reasonably possible changes in these risk variables on the Group, based on the period end holdings of financial instruments have been calculated and are set out in the tables below. In each case it has been assumed that all other variables remain constant. As explained in note 23, fuel price risk is hedged through the use of a combination of derivative instruments. For the purpose of illustrating sensitivity, the price of the underlying commodity in each instrument has been assumed to change by 20%.

	2009		2008	
	Impact on profit before tax £m	Impact on equity £m	Impact on profit before tax £m	Impact on equity £m
<b>Interest rate risk</b>				
1% (2008: 1%) increase in interest rates	(2.2)	–	0.7	–
0.25% (2008: 1%) decrease in interest rates	0.5	–	(0.7)	–

	2009		2008	
	Impact on profit before tax £m	Impact on equity £m	Impact on profit before tax £m	Impact on equity £m
<b>Exchange rate risk</b>				
5% strengthening of euro	8.8	30.5	(1.4)	37.2
5% weakening of euro	(10.7)	(30.2)	(2.6)	(28.8)
5% strengthening of US dollar	10.0	63.6	(7.4)	75.2
5% weakening of US dollar	(9.2)	(57.3)	2.3	(67.7)

	2009		2008	
	Impact on profit before tax £m	Impact on equity £m	Impact on profit before tax £m	Impact on equity £m
<b>Fuel price risk</b>				
20% increase in fuel price	3.6	62.4	–	150.0
20% decrease in fuel price	(3.5)	(63.0)	–	(138.1)

### Liquidity risk

The liquidity position of the Group is significantly influenced by the booking and payment pattern of customers. As a result, liquidity is at its lowest in the winter months and at its highest in the summer months. The Group manages the seasonal nature of its liquidity by making use of its bank revolving credit facility.

Short-term liquidity is primarily invested in bank deposits and, to a lesser extent, in securities having at least an investment grade rating.

Financial liabilities are analysed below based on the time between the period end and their contractual maturity. The amounts shown are estimates of the undiscounted future cash flows and will differ from both carrying value and fair value.

	Amount due				Total £m
	in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	
<b>At 30 September 2009</b>					
Trade and other payables	1,628.5	100.7	7.7	2.2	1,739.1
Borrowings	423.9	200.3	324.1	18.0	966.3
Obligations under finance leases	65.6	181.1	37.1	23.7	307.5
Derivative financial instruments – payable	1,015.4	1,552.0	69.6	–	2,637.0
– receivable	(964.1)	(1,397.6)	(62.3)	–	(2,424.0)
	2,169.3	636.5	376.2	43.9	3,225.9

## Notes to the financial statements continued

**24. Financial risk continued**

At 30 September 2008	Amount due				Total £m
	in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	
Trade and other payables	1,641.4	80.8	8.8	–	1,731.0
Borrowings	50.4	345.6	441.8	18.1	855.9
Obligations under finance leases	69.7	128.0	229.1	22.6	449.4
Derivative financial instruments – payable	366.1	442.9	176.3	–	985.3
– receivable	(222.2)	(386.9)	(137.0)	–	(746.1)
	1,905.4	610.4	719.0	40.7	3,275.5

Estimated undiscounted future cash flows are disclosed above in respect of derivatives with a negative fair value at the period end. These cash flows include amounts in respect of fuel derivatives which are based on the period end fair values. Estimated cash flows relating to fuel option derivatives have all been reported in the 'amount due in less than three months' category. Trade and other payables includes non-financial liabilities of £186.8m (2008: £161.6m) which have not been analysed above.

**Counterparty credit risk**

The Group is exposed to credit risk in relation to deposits, derivatives with a positive fair value and trade and other receivables. The maximum exposure in respect of each of these items at the balance sheet date is their carrying value. The Group assesses its counterparty exposure in relation to the investment of surplus cash, fuel contracts, foreign exchange and interest rate hedging contracts and undrawn credit facilities. The Group uses published credit ratings, credit default swap prices and share price performance in the previous 30 day period to assess counterparty strength and therefore to define the credit limit for each counterparty. The Group's approach to credit risk in respect of trade and other receivables is explained in Note 18.

**25. Insurance****Management of insurance risk**

Incidental to its main business, the Group, through its subsidiary White Horse Insurance Ireland Limited, issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Business written includes standard commercial risks for the Group and travel insurance for both Group and non-Group customers.

The principal nature of travel insurance risks is one of short term, low value and high volume. Underwriting performance is monitored on an ongoing basis and pricing reviewed annually for each individual contract. Exposure is capped by specific limits within the insurance policy and by using reinsurance contracts for any claims in excess of these retention limits. Commercial policies with the Group are subject to policy excesses and single event and aggregate limits.

Insurance risk is spread across several European countries where the Group operates including the UK, Ireland and Continental Europe.

When estimating the cost of claims outstanding at the period end, the principal assumption underlying the estimates is the Group's past development pattern. This includes assumptions in respect of historic claims costs, average claims handling expenses and market developments. The Group also uses an independent actuary to review its liabilities to ensure that the carrying values are adequate. Any changes to these variables are not expected to have a material effect on the Group financial statements.

The Group operates a reinsurance policy approved by the White Horse Insurance Ireland Ltd board which ensures that reinsurers have a financial stability rating of B+ (A M Best) or above. The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to the credit risk of its insurance receivables.

**Income and expenses arising directly from insurance contracts**

	2009 £m	2008 £m
<b>Revenue</b>		
Net earned premium income	7.9	7.8
Deposit Interest	0.5	2.5
Other Income	0.4	–
	8.8	10.3
<b>Expenses</b>		
Claims incurred	11.4	14.4
Other operating expenses	2.3	2.0
	13.7	16.4

## Assets and liabilities arising directly from insurance contracts

	2009 £m	2008 £m
<b>Assets</b>		
Receivables arising out of direct insurance operations	2.3	1.8
Prepayments	0.2	0.1
	<b>2.5</b>	<b>1.9</b>
<b>Liabilities</b>		
Deferred income arising from unearned premiums	2.2	1.7
Claims accruals	6.8	10.4
Insurance premium tax payable	0.4	0.3
Other creditors	0.1	0.4
Accruals and deferred income	0.8	0.7
	<b>10.3</b>	<b>13.5</b>

## Reconciliation of movement in insurance liabilities

	Deferred income arising from unearned premiums £m	Claims accruals £m
At 1 October 2008	1.7	10.4
Net earned premium income	(7.9)	–
Premiums written	8.4	–
Claims incurred	–	11.4
Claims paid	–	(15.0)
<b>At 30 September 2009</b>	<b>2.2</b>	<b>6.8</b>

## 26. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Aircraft finance leases £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other temporary differences £m	Tax losses £m	Total £m
At 1 November 2007	39.7	27.9	2.0	(51.2)	192.3	210.7
IFRS 5 transfer	–	–	–	1.6	–	1.6
(Charge)/credit to income	(12.1)	(4.6)	(0.3)	41.3	18.0	42.3
Charge/(credit) to equity	–	4.2	(25.4)	–	–	(21.2)
Acquisitions (restated)	–	–	–	(13.3)	–	(13.3)
Exchange differences	9.9	3.4	0.8	(7.9)	2.4	8.6
At 30 September 2008 (restated)	37.5	30.9	(22.9)	(29.5)	212.7	228.7
(Charge)/credit to income	(12.3)	0.3	(11.8)	7.6	(2.8)	(19.0)
Charge to equity	–	50.5	69.8	–	–	120.3
Acquisitions	–	–	–	(11.3)	–	(11.3)
Exchange differences	0.6	(0.5)	0.5	(4.5)	5.5	1.6
<b>At 30 September 2009</b>	<b>25.8</b>	<b>81.2</b>	<b>35.6</b>	<b>(37.7)</b>	<b>215.4</b>	<b>320.3</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2009 £m	2008 £m
Deferred tax liabilities	(111.5)	(99.3)
Deferred tax assets	431.8	328.0
	<b>320.3</b>	<b>228.7</b>

## Notes to the financial statements continued

### 26. Deferred tax continued

At the balance sheet date, the Group had unused tax losses of £1,441.0m (2008: £1,327.9m) available for offset against future profits. Deferred tax assets have only been recognised where there is sufficient probability that there will be future taxable profits against which the assets may be recovered. The increase in recognised tax losses in the period relates to non-recurring exceptional costs. The UK and German businesses generated taxable profits before exceptional items which support the recognition of losses in these territories. No deferred tax asset has been recognised in respect of tax losses of £679.9m (2008: £531.0m) due to the unpredictability of future profit streams.

Other temporary differences on which deferred tax has been provided, primarily relate to the difference in book to tax value on qualifying tax assets, provisions for which tax relief was not originally available and fair value accounting on properties acquired as part of the merger. In addition, the Group had unused other short term timing differences in respect of which no deferred tax asset has been recognised amounting to £59.0m (2008: £34.0m), also due to the unpredictability of future profit streams.

Deferred tax liabilities were offset against the corresponding deferred tax assets where both items fell within the responsibility of the same tax authority. The deferred tax assets and liabilities at the period end, without taking into consideration the offsetting balances within the same jurisdiction are £445.4m and £125.1 respectively. Finance Act 2009 introduced new rules in relation to the UK taxation of dividend income. Under the new rules, no UK tax liability is expected to arise on the dividend income from undistributed profits of subsidiaries. The new rules were effective from 1 July 2009. As a result, no deferred tax liability is expected on the undistributed profits of subsidiaries at the balance sheet date. In the prior period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which no deferred tax liabilities was recognised was £295.2m. No liability was recognised in respect of these differences because the Group was in a position to control the timing of the reversal of the temporary differences and it was probable that such differences would not reverse in the foreseeable future.

### 27. Provisions

	Aircraft maintenance provisions £m	Other provisions £m	Total £m
At 1 October 2008 (restated)	164.1	255.0	419.1
Additional provisions in year	66.9	129.8	196.7
Unused amounts released in year	(3.9)	(19.2)	(23.1)
Unwinding of discount	–	7.6	7.6
Utilisation of provisions	(40.4)	(105.3)	(145.7)
Exchange differences	22.4	23.4	45.8
<b>At 30 September 2009</b>	<b>209.1</b>	<b>291.3</b>	<b>500.4</b>
Included in current liabilities	66.1	140.0	206.1
Included in non-current liabilities	143.0	151.3	294.3
<b>At 30 September 2009</b>	<b>209.1</b>	<b>291.3</b>	<b>500.4</b>
Included in current liabilities	65.2	119.8	185.0
Included in non-current liabilities	98.9	135.2	234.1
At 30 September 2008	164.1	255.0	419.1

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and ten years (see note 2).

Other provisions relate to provisions for off-market lease provisions, onerous contracts, contingent consideration and future obligations, including those arising as a result of reorganisation and restructuring plans that are irrevocably committed including severance payments and provisions for social security compensation plans.

Provisions included in non-current liabilities are principally off-market lease provisions that are expected to be utilised over the term of those contracts which extend up to ten years from the balance sheet date and contingent consideration arising on acquisitions.

### 28. Non-current assets classified as held for sale

In March 2009 the Group gained legal title to a hotel property in Mexico as settlement of an outstanding loan for £9.1m. This property is being actively marketed for sale and is expected to be disposed within the next financial year and has therefore been classified as held for sale. There are no items recognised as held for sale at the prior period end.

## 29. Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging and translation reserves £m	Merger reserve £m	Retained earnings/(deficit) £m	Attributable to equity holders of the parent £m	Minority interest £m	Total £m
At 1 November 2007	66.1	6.8	–	(4.9)	15.9	1,984.2	44.2	2,112.3	8.3	2,120.6
Total recognised income and expense for the period	–	–	–	–	198.9	–	31.8	230.7	(0.3)	230.4
Equity credit in respect of share-based payments	–	–	–	–	–	–	3.1	3.1	–	3.1
Issue of equity shares net of expenses	0.1	2.1	–	–	–	–	–	2.2	–	2.2
Acquisition of minority interests	–	–	–	–	–	–	–	–	6.2	6.2
Exchange difference on minority interest	–	–	–	–	–	–	–	–	0.4	0.4
Share buy back	(6.4)	–	6.4	–	–	–	(266.3)	(266.3)	–	(266.3)
Purchase of own shares	–	–	–	(8.3)	–	–	–	(8.3)	–	(8.3)
Disposal of own shares	–	–	–	0.2	–	–	–	0.2	–	0.2
Dividends paid	–	–	–	–	–	–	(78.2)	(78.2)	(1.9)	(80.1)
Net change directly in equity	(6.3)	2.1	6.4	(8.1)	–	–	(341.4)	(347.3)	4.7	(342.6)
Total movements	(6.3)	2.1	6.4	(8.1)	198.9	–	(309.6)	(116.6)	4.4	(112.2)
At 30 September 2008 (restated)	59.8	8.9	6.4	(13.0)	214.8	1,984.2	(265.4)	1,995.7	12.7	2,008.4
Total recognised income and expense for the year	–	–	–	–	(78.7)	–	(103.1)	(181.8)	2.5	(179.3)
Equity credit in respect of share-based payments	–	–	–	–	–	–	8.3	8.3	–	8.3
Acquisition of minority interests	–	–	–	–	–	–	–	–	5.1	5.1
Exchange difference on minority interest	–	–	–	–	–	–	–	–	(1.4)	(1.4)
Share buy back	(2.1)	–	2.1	–	–	–	(26.4)	(26.4)	–	(26.4)
Purchase of own shares	–	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Dividends paid	–	–	–	–	–	–	(87.4)	(87.4)	–	(87.4)
Net change directly in equity	(2.1)	–	2.1	(0.1)	–	–	(105.5)	(105.6)	3.7	(101.9)
Total movements	(2.1)	–	2.1	(0.1)	(78.7)	–	(208.6)	(287.4)	6.2	(281.2)
<b>At 30 September 2009</b>	<b>57.7</b>	<b>8.9</b>	<b>8.5</b>	<b>(13.1)</b>	<b>136.1</b>	<b>1,984.2</b>	<b>(474.0)</b>	<b>1,708.3</b>	<b>18.9</b>	<b>1,727.2</b>

The merger reserve arose on the reverse acquisition of Thomas Cook Group plc and MyTravel Group plc by Thomas Cook AG. In the case of Thomas Cook Group plc, the merger reserve represents the difference between the existing share capital and share premium of Thomas Cook AG and the share capital of Thomas Cook Group plc issued in exchange, and in the case of MyTravel Group plc, the merger reserve represents the difference between the fair value and the nominal value of the share capital issued by Thomas Cook Group plc.

The capital redemption reserve was created as a consequence of the share buy back. Further details of the share buy back are included in notes 30 and 38.

Details of changes in hedging and translation reserves are set out in note 31.

## Notes to the financial statements continued

**30. Called-up share capital**

	2009 £m	2008 £m
<b>Authorised (as at 30 September 2009)</b>		
50,000 deferred shares of £1 each (2008: 50,000)	0.1	0.1
2,000,000,000 ordinary shares of €0.10 each (2008: 2,000,000,000)	135.2	135.2
<b>Allotted, called-up and fully paid</b>		
858,292,947 ordinary shares of €0.10 each (2008: 879,541,536)	57.7	59.8
<b>Allotted, called-up and partly paid</b>		
50,000 deferred shares of £1 each, 25p paid (2008: 50,000)	–	–

**Contingent rights to the allotment of shares**

As at 30 September 2009 options to subscribe for ordinary shares were outstanding with respect to the Thomas Cook Group plc 2007 Performance Share Plan, the Thomas Cook Group plc 2008 Co-Investment Plan and the Thomas Cook Group plc 2008 Save As You Earn Scheme. For further details refer to note 36. On exercise, the awards of shares under the plan will be satisfied by either purchases in the market of existing shares or, subject to institutional guidelines, issuing new shares.

**Own shares held in trust**

Shares of the Company are held under trust by Halifax EES Trustees International Limited and Equinity Share Plan Trustees Limited in connection with the Thomas Cook Group plc 2007 Performance Share Plan and Buy As You Earn Scheme respectively. In accordance with IFRS, these are treated as Treasury Shares and are included in other reserves in the balance sheet.

The number of shares held at 30 September 2009 by Halifax EES Trustees International Limited and Equiniti Share Plan Trustees Limited was 5,090,822 (2008: 5,049,795) and 37,963 (2008: 4,506) respectively. The cumulative cost of acquisition of these shares was £13.2m (2008: £13.1m) and the market value at 30 September 2009 was £11.9m (2008: £11.2m). Shares held by the trust have been excluded from the weighted average number of shares used in the calculation of earnings per share.

**Share buy back**

During the year, the Group had purchased a total of 12,934,387 shares for cancellation, at a total cost of £26.4 million, excluding commission and other related costs.

**Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, sell assets to reduce debt or issue new shares.

The capital structure of the Group consists of debt, cash and cash equivalents (as shown in note 33) together with equity attributable to equity holders of the parent (as shown in the Group balance sheet). At the balance sheet date the Group had total capital of £2,383.6m (2008: £2,288.2m, restated).

**31. Hedging and translation reserves**

	Hedging reserve £m	Available-for-sale investments £m	Translation reserve £m	Total £m
At 1 November 2007	(24.6)	(0.2)	40.7	15.9
Exchange differences on translation of overseas operations	–	–	121.6	121.6
Valuation gains/(losses) taken to equity	281.4	(0.9)	–	280.5
Transfer to profit or loss	(177.8)	–	–	(177.8)
Tax relating to valuation losses and transfers	(25.4)	–	–	(25.4)
At 30 September 2008	53.6	(1.1)	162.3	214.8
Exchange differences on translation of overseas operations	–	–	86.4	86.4
Valuation losses taken to equity	(213.7)	(1.1)	–	(214.8)
Transfer to profit or loss	(24.6)	–	4.5	(20.1)
Tax relating to valuation losses and transfers	69.8	–	–	69.8
<b>At 30 September 2009</b>	<b>(114.9)</b>	<b>(2.2)</b>	<b>253.2</b>	<b>136.1</b>

### 32. Notes to the cash flow statement

	2009 £m	2008 £m
Profit before tax	56.1	48.4
Adjustments for:		
Finance income	(51.2)	(68.4)
Finance costs	154.7	153.6
Net investment income	(1.4)	(0.5)
Loss on disposal of associate	2.2	–
Share of results of associates and joint ventures	3.8	1.6
Depreciation of property, plant and equipment	145.2	110.7
Impairment of property, plant and equipment	–	1.3
Amortisation of intangible assets	22.4	17.3
Impairment of intangible assets	18.0	5.5
Amortisation of business combination intangibles	34.8	49.1
(Profit)/loss on disposal of businesses and property, plant and equipment	(0.4)	1.7
Loss on disposal of intangible assets	4.3	–
Share based payments	8.3	3.1
Other non-cash items	(19.6)	(32.7)
(Decrease)/increase in provisions	(17.6)	0.5
Income received from other non-current investments	1.4	0.4
Additional pension contributions	(17.4)	(17.4)
Interest received	15.5	27.2
Operating cash flows before movements in working capital	359.1	301.4
Increase in inventories	(1.1)	(4.7)
Decrease/(increase) in receivables	110.0	(121.6)
(Decrease)/increase in payables	(263.3)	245.8
Cash generated by operations	204.7	420.9
Income taxes paid	(26.6)	(63.7)
<b>Net cash from operating activities</b>	<b>178.1</b>	<b>357.2</b>

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

### 33. Net debt

	At 1 October 2008 £m	Cash flow £m	Other non-cash changes £m	Exchange movements £m	At 30 September 2009 £m
<b>Liquidity</b>					
Cash and cash equivalents	761.3	(284.2)	–	73.1	550.2
Trading securities	129.2	(125.3)	(10.6)	6.7	–
	890.5	(409.5)	(10.6)	79.8	550.2
<b>Current debt</b>					
Bank overdrafts	(13.8)	(26.2)	–	(3.2)	(43.2)
Short term borrowings	(198.8)	(37.7)	(129.5)	(35.8)	(401.8)
Current portion of long-term borrowing	(143.4)	17.1	(36.0)	(11.8)	(174.1)
Obligations under finance leases	(182.6)	174.4	(205.0)	(24.6)	(237.8)
	(538.6)	127.6	(370.5)	(75.4)	(856.9)
<b>Non-current debt</b>					
Long-term borrowings	(416.1)	(32.4)	165.5	(37.9)	(320.9)
Obligations under finance leases	(228.3)	–	205.0	(24.4)	(47.7)
	(644.4)	(32.4)	370.5	(62.3)	(368.6)
<b>Total debt</b>	<b>(1,183.0)</b>	<b>95.2</b>	<b>–</b>	<b>(137.7)</b>	<b>(1,225.5)</b>
<b>Net debt</b>	<b>(292.5)</b>	<b>(314.3)</b>	<b>(10.6)</b>	<b>(57.9)</b>	<b>(675.3)</b>

## Notes to the financial statements continued

**34. Operating lease arrangements****The Group as lessee**

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Property and other 2009 £m	Aircraft and aircraft spares 2009 £m	Total 2009 £m	Property and other 2008 £m	Aircraft and aircraft spares 2008 £m	Total 2008 £m
Within one year	111.8	128.4	240.2	98.1	117.3	215.4
Later than one and less than five years	290.4	267.2	557.6	276.2	302.3	578.5
After five years	153.4	10.7	164.1	185.0	31.5	216.5
	<b>555.6</b>	<b>406.3</b>	<b>961.9</b>	559.3	451.1	1,010.4

Operating lease payments principally relate to rentals payable for the Group's retail shop properties and for aircraft and spares used by the Group's airlines. Shop leases are typically negotiated for an average term of 5 years and aircraft leases for an average term of 10 years. The prior year 'Property and other' commitment has been restated to include the gross amount of certain property leases over which off market lease provisions are held.

**The Group as lessor**

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Property 2009 £m	Aircraft 2009 £m	Total 2009 £m	Property 2008 £m	Aircraft 2008 £m	Total 2008 £m
Within one year	1.8	1.7	3.5	0.3	3.8	4.1
Later than one and less than five years	6.4	–	6.4	1.2	1.5	2.7
After five years	2.4	–	2.4	–	–	–
	<b>10.6</b>	<b>1.7</b>	<b>12.3</b>	1.5	5.3	6.8
Rental income earned during the period was:	<b>2.2</b>	<b>5.4</b>	<b>7.6</b>	1.6	7.2	8.8

Certain of the Group's retail and other properties and aircraft that are not being used in the Group's businesses are sub-let on the best terms available in the market for varying periods, with an average future committed period of 7.7 years for property (2008: 2.6 years) and 7 months for aircraft (2008: 12 months).

At 30 September 2009 one aircraft (2008: two) sub-let is held by the Group on a finance lease. This aircraft had an aggregate cost and a carrying value of £15.5m (2008: £20.3m). There were no impairment provisions relating to these aircraft and the depreciation charge for the year was £nil (2008: £0.1).

**35. Contingent liabilities**

	2009 £m	2008 £m
Contingent liabilities	<b>136.1</b>	116.0

Contingent liabilities primarily comprise guarantees, letters of credit and other contingent liabilities, including contingent liabilities related to structured aircraft leases all of which arise in the ordinary course of business. The amounts disclosed above represents the Group's contractual exposure.

The Group complies with all the standards relevant to consumer protection and formal requirements in respect of package tour contracts and has all the necessary licences for the various sales markets. The customer's right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in all Thomas Cook sales markets in line with local legislation and within the various guarantee systems applied. In the United Kingdom there is a fund mechanism whereby travel companies are required to collect and remit a small charge for each protected customer upon booking. Customer rights in relation to Thomas Cook Group in Germany, Belgium and Austria are guaranteed via an insolvency insurance system, in Ireland, Scandinavia and France via guarantees provided by banks and insurance companies, and in the Netherlands via a guaranteed fund. In North America, customer payments are held in escrow accounts until the obligations of the tour operator or travel agent have been completed.

### 36. Share-based payments

The Company operates five equity-settled share-based payment schemes, as outlined below. The total expense recognised during the year in respect of equity-settled share-based payment transactions was £8.3m (2008: £3.1m).

#### The Thomas Cook Group plc 2007 Performance Share Plan (PSP) and the HM Revenue & Customs Approved Company Share Option Sub-Plan (CSOSP)

Executive Directors and senior executives of the Company and its subsidiaries are granted options to acquire, or contingent share awards of, the ordinary shares of the Company. The awards will vest if performance targets for adjusted earnings per share (EPS) and total shareholder return (TSR) are met during the three years following the date of grant. Subject to vesting conditions, the options are exercisable up to ten years after the date of grant.

#### The Thomas Cook Group plc 2008 Co-Investment Plan (COIP)

Executive Directors and senior executives may be required to purchase the Company's shares using a proportion of their net bonus (Lodged Shares). For each Lodged Share purchased participants may receive up to 3.5 Matching Shares if performance targets for EPS and return on invested capital (ROIC) are met during the three years following the date of grant. Subject to vesting conditions, the options or contingent share awards are exercisable up to ten years after the date of grant.

#### The Thomas Cook Group plc 2008 Save As You Earn Scheme (SAYE)

Eligible employees were offered options to purchase shares in the Company by entering into a three or four year savings contract. The option exercise price was set at a 20% discount to the market price at the offer date. Options are exercisable during the six months after the end of the savings contract.

#### The Thomas Cook Group plc 2008 HM Revenue & Customs Approved Buy As You Earn Scheme (BAYE)

Eligible UK tax paying employees are offered the opportunity to purchase shares in the Company by deduction from their monthly gross pay. For every ten shares an employee buys in this way, the Company will purchase one matching share on their behalf. At 30 September 2009, 37,963 matching shares had been purchased (2008: 4,506).

The movements in options and awards during the year and prior period were:

	2009			
	PSP	COIP	SAYE	CSOSP
Outstanding at beginning of year	6,574,186	985,046	3,327,150	–
Granted	9,810,081	3,944,088	100,562	926,889
Exercised	–	–	(27)	–
Cancelled	–	–	(218,224)	–
Forfeited	(1,358,491)	(298,283)	(54,349)	(47,871)
Outstanding at end of year	15,025,776	4,630,851	3,155,112	879,018
Exercisable at end of year	–	–	–	–
Exercise price (£)	nil	nil	2.14	1.91
Average remaining contractual life (years)	8.9	9.3	2.3	9.3

The weighted average share price at the date of exercise for the options exercised during the year was £2.31.

	2008		
	PSP	COIP	SAYE
Outstanding at beginning of period	2,869,648	–	–
Granted	4,304,331	985,046	3,349,444
Exercised	(83,333)	–	–
Forfeited	(516,460)	–	(22,294)
Outstanding at end of period	6,574,186	985,046	3,327,150
Exercisable at end of period	–	–	–
Exercise price (£)	nil	nil	2.15
Average remaining contractual life (years)	9.2	9.8	3.3

The weighted average share price at the date of exercise for the options exercised during the prior period was £2.40.

## Notes to the financial statements continued

**36. Share-based payments continued**

The fair value of options and awards subject to EPS and ROIC performance targets was determined by the use of Black-Scholes models and the fair value of options subject to TSR performance targets was determined by the use of Monte Carlo simulations. For options and awards granted during the period the key inputs to the models were:

	2009			
	PSP	COIP	SAYE	CSOSP
Weighted average share price at measurement date	£1.95	£1.96	£2.12	£1.91
Weighted average exercise price	nil	nil	£1.88	£1.91
Expected volatility	44%	44%	44%	44%
Expected volatility of comparator group	24%-83%	n/a	n/a	n/a
Expected correlation with comparator group	34%	n/a	n/a	n/a
Weighted average option life (years)	3	3	4.3	3
Weighted average risk-free rate	2.0%	2.0%	4.1%	2.0%
Expected dividend yield	7%	7%	7%	7%
Weighted average fair value at date of grant	£1.31	£1.60	£0.54	£1.28

	2008		
	PSP	COIP	SAYE
Share price at measurement date	£2.80	£2.37	£2.41
Exercise price	nil	nil	£2.15
Expected volatility	34%	34%	34%
Expected volatility of comparator group	16%-55%	n/a	n/a
Expected correlation with comparator group	25%	n/a	n/a
Option life (years)	3	3	3.3
Risk free rate	3.9%	5.2%	5.5%
Expected dividend yield	5%	5%	5%
Weighted average fair value at date of grant	£1.91	£2.04	£0.59

Expected volatility has been based on the historic volatility of the Company's shares and the shares of other companies in the same or related sectors.

**37. Retirement benefit schemes**

Pension schemes for the employees of the Thomas Cook Group consist of defined contribution plans and defined benefit plans, with the defined benefit plans being both funded and unfunded. The obligations arising from defined contribution plans are satisfied by contribution payments to both private and state-run insurance providers.

**Unfunded defined benefit pension obligations**

Unfunded defined benefit pension obligations primarily relate to the Group's employees in the German businesses of Thomas Cook AG and the Condor Group. Provisions are established on the basis of commitments made to those employees for old-age and transitional pensions based on the legal, tax and economic circumstances of the individual countries and on the period of employment and level of remuneration of the respective employees.

Provisions for pensions and similar obligations totalling £179.0m (2008: £138.9m) were attributable to the pension commitments of Condor Group (Condor Flugdienst GmbH and Condor Berlin GmbH). For employees who joined a Condor Group company prior to 1995, the total pension commitment of the pensions authority of the German federal government and regional states was adjusted and maintained in the form of a company pension scheme. The flight crews were additionally entitled to a transitional provision for the period between the termination of their in-flight employment and the time they became eligible for a state-run or company pension. In both cases, the benefit commitment depended on the final salaries of the employees concerned prior to the termination of their in-flight employment (final salary plan). Employees who joined a Condor Group company after 1994 participate in a company pension scheme under which the pension entitlements are based on the average salaries of those employees (average salary plan). Condor Group also has retirement obligations arising from individual commitments and transitional provisions. In accordance with IAS 19, all these commitments are classified as unfunded defined benefit obligations and classified as such in these financial statements.

The Condor Group defined benefit plans have been closed to new entrants (with the exception of pilots) since 2004.

There are additional unfunded defined benefit obligations comprising individual commitments to executive staff at Thomas Cook Group and obligations in respect of past service for employees in Sweden.

The unfunded pension benefits are accounted for as part of liabilities for retirement benefit obligations in the balance sheet.

The following weighted average actuarial assumptions were made for the purpose of determining the unfunded defined benefit obligations:

	2009 %	2008 %
Discount rate for scheme liabilities	5.68%	6.16%
Expected rate of salary increases	1.93%	2.98%
Future pension increases	1.66%	2.34%

The mortality tables 2005 G drawn up by Prof. Dr. Klaus Heubeck were used as the basis for the mortality assumptions used in arriving at the present value of the pension obligations at 30 September 2009. These assume a life expectancy for members currently aged 60 of 22.4 years for men and 27.0 years for women.

Amounts recognised in income statement in respect of these defined benefit schemes are as follows:

	2009 £m	2008 £m
Current service cost	7.1	7.3
Past service cost	–	(0.3)
Curtailment gain	(0.9)	(1.3)
Interest cost on scheme liabilities	11.2	8.5
<b>Total included in income statement</b>	<b>17.4</b>	<b>14.2</b>

Service costs have been included in personnel expenses in the income statement and the unwinding of the discount rate of the expected retirement benefit obligations has been included in finance costs. Actuarial gains and losses have been reported in the statement of recognised income and expense.

Changes in the present value of unfunded pension obligations were as follows:

	2009 £m	2008 £m
At beginning of period	163.8	162.3
Current service cost	7.1	7.3
Past service cost	–	(0.3)
Interest cost	11.2	8.5
Benefits paid	(5.1)	(3.5)
Settlements	(5.2)	(7.8)
Curtailements	(0.9)	(1.3)
Actuarial losses/(gains)	13.0	(23.6)
Acquisitions	–	0.7
Transfers	0.3	–
Exchange difference	24.7	21.5
<b>At end of period</b>	<b>208.9</b>	<b>163.8</b>

#### Funded defined benefit pension obligations

The pension entitlements of employees of Thomas Cook UK and employees in Norway are provided through funded defined benefit schemes where pension contributions are paid over to the schemes and the assets of the schemes are held separately from those of the Group in funds under the control of trustees. Pension costs are assessed in accordance with the advice of qualified actuaries in each country. The fair value of the pension assets in each scheme at the period end is compared with the present value of the retirement benefit obligations and the net difference reported as a pension asset or retirement benefit obligation as appropriate. Pension assets are only recognised to the extent that they will result in reimbursements being made or future payments being reduced.

Funded defined benefit pension obligations have been determined on the basis of assumptions relevant to each country. The weighted averages of these were:

	2009 %	2008 %
Discount rate for scheme liabilities	5.49%	6.40%
Inflation rate	3.48%	3.40%
Expected return on scheme assets	6.53%	6.98%
Expected rate of salary increases	4.72%	4.33%
Future pension increases	3.48%	3.40%

## Notes to the financial statements continued

**37. Retirement benefit schemes continued**

The Thomas Cook UK Pension Plan accounts for approximately 98% (2008: 90%) of the total funded defined benefit obligation and the mortality assumptions used in arriving at the present value of those obligations at 30 September 2009 are based on a life expectancy for members currently aged 60 of 26.8 years for men and 27.9 years for women. The Thomas Cook UK Pension Plan has been closed to new entrants since April 2003. Employees who have joined since that date participate in a new defined contribution scheme.

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2009 £m	2008 £m
Current service cost	14.1	14.3
Gain on settlements	(0.4)	–
Curtailement gain	(2.0)	–
Expected return on scheme assets	(38.4)	(41.9)
Interest cost on scheme liabilities	38.9	33.4
<b>Total included in income statement</b>	<b>12.2</b>	<b>5.8</b>

Service costs have been included in personnel expenses in the income statement and the unwinding of the discount rate of the expected retirement benefit obligations has been included in finance costs. The expected return on scheme assets has been included in finance income.

The actual return on scheme assets was £24.8m (2008: £(75.1)m).

Actuarial gains and losses have been reported in the statement of recognised income and expense.

Changes in the present value of funded defined benefit obligations were as follows:

	2009 £m	2008 £m
At beginning of period	607.4	648.1
Current service cost	14.1	14.3
Settlements	(5.9)	–
Interest cost	38.9	33.4
Benefits paid	(17.8)	(14.5)
Acquisitions	–	1.2
Curtailments	(2.0)	–
Expenses paid	(2.0)	–
Contributions paid by plan participants	3.8	3.6
Actuarial losses/(gains)	143.5	(77.1)
Exchange difference	4.1	(1.6)
<b>At end of period</b>	<b>784.1</b>	<b>607.4</b>

Changes in the fair value of scheme assets were as follows:

	2009 £m	2008 £m
At beginning of period	581.7	635.2
Expected return on scheme assets	38.4	41.9
Contributions from the sponsoring companies	33.4	33.0
Contributions paid by plan participants	3.8	3.6
Actuarial losses	(13.6)	(117.0)
Benefits paid	(17.8)	(14.5)
Settlements	(5.5)	–
Expenses paid	(2.0)	–
Acquisitions	–	0.7
Exchange difference	3.5	(1.2)
<b>At end of period</b>	<b>621.9</b>	<b>581.7</b>

Following the 2008 actuarial valuation of the Thomas Cook UK pension plan, a 6 year Recovery Plan has been agreed with the pension trustees to fund the actuarial deficit. Thomas Cook UK will make payments totalling £16m during the year ended 30 September 2010, and quarterly payments during the four years thereafter totalling £89.56m, with the last payment from the company being made in June 2014. The Group is expected to make aggregate contributions to its funded defined benefit schemes of £30.8m during the year commencing 1 October 2009.

The fair value of scheme assets at the balance sheet date is analysed as follows:

	2009 Long-term rate of return %	2009 £m	2008 Long-term rate of return %	2008 £m
Equities	7.6	277.9	7.4	246.8
Property	6.1	62.5	6.3	72.0
Fixed interest gilts	4.3	182.4	5.2	173.1
Hedge funds	7.6	49.5	7.4	52.0
Other	7.3	49.6	7.4	37.8
<b>At end of period</b>		<b>621.9</b>		<b>581.7</b>

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The expected rates of return on scheme assets have been calculated as the weighted average rate of return on each asset class. The return on each asset class is taken as the market rate of return.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes is as follows:

	2009 £m	2008 £m
Present value of funded defined benefit obligations	784.1	607.4
Fair value of scheme assets	(621.9)	(581.7)
Asset cap	–	0.7
Deficit on funded retirement benefit obligations	162.2	26.4
Present value of unfunded defined benefit obligations	208.9	163.8
<b>Scheme deficits recognised in the balance sheet</b>	<b>371.1</b>	<b>190.2</b>

This amount is presented as follows:

	2009 £m	2008 £m
Non-current assets	–	(0.4)
Current liabilities	4.8	9.0
Non-current liabilities	366.3	181.6
	<b>371.1</b>	<b>190.2</b>

The cumulative net actuarial losses recognised in the statement of recognised income and expense at 30 September 2009 were £305.7m (2008: £135.6m).

The history of the experience gains and losses of the schemes is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	993.0	771.2	810.4	791.0	729.9
Fair value of scheme assets	(621.9)	(581.7)	(635.2)	(513.0)	(368.7)
Scheme deficits	371.1	189.5	175.2	278.0	361.2
Experience adjustments on scheme liabilities	(7.7)	2.7	2.0	(34.0)	(101.8)
Experience adjustments on scheme assets	(13.7)	(116.6)	11.2	21.8	25.0

#### Defined contribution schemes

There are a number of defined contribution schemes in the Group, the principal scheme being the Thomas Cook UK DC Pension Scheme which is open to all UK employees. The total charge for the year in respect of this and other defined contribution schemes, including liabilities in respect of insured benefits relating to workers' compensation arrangements, amounted to £20.1m (2008: £16.5m).

The assets of these schemes are held separately from those of the Group in funds under the control of trustees.

## Notes to the financial statements continued

### 38. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associated and joint venture undertakings are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

On 1 October 2008, Thomas Cook Group plc was 52.8% owned by Arcandor. During the first six months of the current year the Group bought back 6,831,425 shares for £14.0m from Arcandor. This transaction was part of the share buy-back programme and was at arms length. On 10 September 2009, 43.9% of Thomas Cook Group plc, which was held by Arcandor and its subsidiaries, was placed on the stock market at 240p. In early October, the remaining shares held as pledge against an Arcandor convertible bond were delivered to bondholders. Following these developments, 100% of the Group's share capital can now be traded freely on the London Stock Exchange.

As a result, Arcandor controlled a majority of the ordinary share capital of the Company during the prior year and during the current year prior to the disposal of shares and is therefore regarded as a related party in both years.

#### Trading transactions

During the period, Group companies entered into the following transactions with related parties who are not members of the Group:

	Associates, joint ventures and participations*		Arcandor	
	2009 £m	2008 £m	2009 £m	2008 £m
Sale of goods and services	12.8	34.2	0.6	0.8
Purchases of goods and services	(35.4)	(30.2)	(7.8)	(14.4)
Interest receivable	0.2	0.1	–	0.6
Interest payable	–	–	–	(0.1)
Other income	7.7	5.6	0.2	2.6
Management fees and other expenses	(1.3)	(1.5)	–	–
Amounts owed by related parties	20.7**	23.0	3.4	11.7
Provisions against amounts owed	(4.4)	(4.4)	(2.1)	–
Amounts owed to related parties	(5.6)	(3.9)	(2.8)	(17.9)***

All transactions are considered to have been made at market prices. Outstanding amounts will normally be settled by cash payment.

\* Participations are equity investments where the Group has a significant equity participation but which are not considered to be associates or joint ventures.

\*\* Amounts owed by related parties includes £9.9m (2008: £6.1m) which for statutory purposes is reported as part of the Associate investment.

\*\*\* In the prior year £16.4m of the amount owed to Arcandor was included within borrowings (£0.4m short-term and £16.0m long-term)

### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report on pages 59 and 60.

In the year, Ludger Heuberg has been acting as Chief Financial Officer to the Group, in the absence of Jürgen Büser. As a result, for 2009 we have included his remuneration in the table below.

	2009 £m	2008 £m
Short-term employee benefits	5.6	13.1
Post-employment benefits	0.2	0.2
Share-based payments	2.2	0.6
	8.0	13.9

### 39. Subsequent events

No events have occurred between the balance sheet date and date of approval by the Board of Directors that would have a material impact on these financial statements.