

Notes to the consolidated financial statements

1. Accounting policies

The following accounting policies have been applied consistently to all periods presented in these consolidated financial statements with the exception, as described below, of the pro forma financial comparative information presented for the year ended 30 September 2007.

The financial statements are presented in the Group's presentational currency of Sterling, rounded to the nearest hundred thousand.

(A) Statement of compliance

The consolidated financial statements for the year ended 30 September 2008 have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRSs). The consolidated financial statements were approved on 26 November 2008.

(B) Basis of preparation**(i) Business combination**

On 3 September 2007, the TUI Travel PLC Group was formed through a business combination of the tourism businesses of TUI AG (TUI Tourism) with First Choice Holidays PLC (now First Choice Holidays Limited) (First Choice). The business combination was effected by way of TUI Travel PLC, a subsidiary of TUI AG, acquiring both TUI Tourism and First Choice. On a consolidated basis, TUI Tourism is considered to be the acquirer of First Choice. As a result of the business combination, First Choice's listing on the London Stock Exchange was cancelled on that date and the ordinary shares of the new combined group, TUI Travel PLC, were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

(ii) Comparative financial information

The statutory comparative financial information represents the 9-month period from 1 January 2007 to 30 September 2007 for the TUI Tourism businesses and includes one month of First Choice (from the date of its acquisition on 3 September 2007). The Directors consider this 9-month period to 30 September 2007 to be the appropriate statutory comparative as it represents the previous statutory reporting period of the deemed acquirer, TUI Tourism. The subsequent acquisition and one month inclusion of First Choice and the seasonality of the business of the Group as a whole will mean that this statutory comparative period is not directly comparable to the current year.

An unaudited pro forma income statement for the year ended 30 September 2007 has been prepared by the Directors on a pro forma basis to illustrate the effect of the business combination as if it had taken place prior to 1 October 2006 (the first day of the pro forma comparative accounting period presented). The unaudited pro forma income statement is included within the consolidated income statement and related notes. This is to provide information which the Directors consider is meaningful, but it is not entirely comparable with the result for the year ended 30 September 2008 because it is an aggregation of financial information

of TUI Tourism, First Choice and the holding company, TUI Travel PLC. Specifically, no adjustments have been made for the impact of acquisition accounting in accordance with IFRS 3 Business Combinations; the assets and liabilities of First Choice have not been restated to their fair value; and no amortisation relating to the business combination has been recognised. Also intra-group trading between TUI Tourism and First Choice has not been eliminated, as required by IAS 27: Consolidated and separate financial statements. The unaudited pro forma financial information has been prepared for illustrative purposes only. It has not been designed to and does not give a presentation of the income statement of the Group that would have been reported in accordance with adopted IFRSs had the business combination actually occurred before 1 October 2006.

(iii) Parent Company

TUI Travel PLC (the Company) is a company incorporated and domiciled in England and Wales under the Companies Act 1985 and listed on the London Stock Exchange. The Registered Office of the Company is TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex, RH10 9QL. The Company was incorporated on 29 January 2007 as Coppereagle PLC and changed its name to TUI Travel PLC on 21 June 2007. The Company's first set of accounts were prepared for the seven-month period ended 31 July 2007 and the Company then changed its accounting reference date to 30 September. The profit disclosed in the Company's accounts is for the 14-month period ended 30 September 2008.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are presented separately on pages 124 to 129.

(iv) Underlying measures of profits and losses

The Group believes that underlying operating profit and underlying profit before tax provide additional guidance to statutory measures to help understand the underlying performance of the business during the financial period. The term underlying is not defined under International Financial Reporting Standards. It is a measure that is used by management to assess the underlying performance of the business internally and is not intended to be a substitute measure for Adopted IFRSs' GAAP measures. The Group defines these underlying measures as follows:

Underlying operating profit is profit before financial income and expenses, taxation (Group and share of joint ventures and associates), separately disclosed items (see Note 3), amortisation of intangible assets acquired in business combinations and impairment of goodwill.

Underlying profit before tax is profit before taxation (Group and share of joint ventures and associates), separately disclosed items, amortisation of intangible assets acquired in business combinations, impairment of goodwill and financing expenses or income arising on the revaluation of minority interest put option liabilities.

Underlying earnings used in the calculation of underlying earnings per share is profit after tax excluding separately disclosed items, amortisation of intangible assets acquired in business combinations, impairment of goodwill and financing expenses or income arising on the revaluation of minority interest put option liabilities (net of related taxation).

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

(v) Separately disclosed items

Separately disclosed items are those significant items which in management's judgement are highlighted by virtue of their size or incidence to enable a full understanding of the Group's financial performance. Such items are included within the income statement caption to which they relate (see Note 3).

(vi) Funding and Liquidity

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business and Financial Review on pages 11 to 35. In addition Note 25 sets out the Group's objectives, policies and processes for managing its capital; financial risks; financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Board remains satisfied with the Group's funding and liquidity position. The two main sources of debt funding are the shareholder loan from TUI AG, which is €1.0bn and matures in January 2011, and the external bank £770m revolving credit facility which matures in August 2012.

The ratio of Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) to fixed charges (being the aggregate amount of interest and any other finance charges in respect of borrowings and including all payments under operating leases) and the ratio of net debt to EBITDA, which the Board believes to be the most useful measures of cash generation and gearing, as well as being the main basis for the Group's credit facility covenants, are currently well within the covenant limits. Forecasts reviewed by the Board, including forecasts adjusted for significantly worse economic conditions, show continued compliance with these covenants.

On the basis of its forecasts, both base case and adjusted as described above, and available facilities, the Board has concluded that the going concern basis of preparation continues to be appropriate.

(C) Basis of consolidation

The consolidated financial statements are prepared on the historical cost basis other than derivative financial instruments, financial instruments held for trading, financial instruments classified as available for sale and liabilities for cash-settled share-based payments, which are stated at their fair value. Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the Group) and equity account the Group's interest in joint ventures and associates. The parent company financial statements present information about the Company as a separate entity and not about the Group.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial information from the date that control commences until the date that control ceases.

(ii) Joint ventures and associates

Joint ventures are jointly controlled entities whose activities the Group has the power to jointly control, established by contractual agreement. Associates are those entities in which the Group has the ability to exercise significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expense of joint ventures and associates on an equity accounted basis, from the date that joint control or significant influence respectively commences until the date that it ceases. When the Group's share of losses exceeds the carrying amount of the joint venture or associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Acquisition in stages

When control is obtained in successive share purchases (a 'step acquisition'), each significant transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities acquired are stated at fair value when control is obtained. The fair value of the acquiree's identifiable assets, liabilities and contingent liabilities may be different at the date of each purchase transaction. Any adjustment to those fair values relating to previously held interests of the acquirer is accounted for as a revaluation.

Notes to the consolidated financial statements continued

(v) Contingent acquisition consideration

Contingent consideration is recognised when the payment becomes probable and the amount can be reliably measured. The purchase price is subsequently adjusted against goodwill or negative goodwill as the estimate of the amount payable is revised.

(D) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement (except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Sterling at foreign exchange rates ruling at the dates the fair values were determined.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling at the foreign exchange rates ruling at the balance sheet date.

The revenues and expenses of overseas operations are translated at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in equity in the Translation reserve, a designated foreign exchange reserve.

(iii) Net investment in foreign operations

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the Translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are recognised directly in equity, in the Translation reserve, to the extent that the hedge is effective. These amounts recorded in the Translation reserve are released to the income statement upon disposal of the foreign operation as part of the profit or loss on disposal.

(E) Financial instruments

(i) Financial assets

Financial assets are classified as loans and receivables, available for sale financial assets, financial assets at fair value through profit or loss or as derivatives designated as hedging instruments. Financial assets include cash and cash equivalents, trade receivables, other receivables, loans, other investments, and derivative financial instruments. The Group determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification, as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes trade and other receivables.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as loans and receivables or financial assets at fair value through profit or loss. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Note 1Y describes the basis on which fair value is determined.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Derivatives

Derivatives are accounted for in accordance with the policy in 1E(iii).

(ii) Financial liabilities

Financial liabilities are classified as financial liabilities measured at amortised cost, financial liabilities at fair value through profit or loss or derivatives designated as hedging instruments. Financial liabilities include trade and other payables, accruals, finance debt and derivative financial instruments. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, normally being the transaction price plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing. After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other revenues and finance costs. This category of financial liabilities includes trade and other payables.

Derivatives

Derivatives are accounted for in accordance with the policy in 1E(iii).

(iii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and fuel price risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see Accounting Policy 1(F)).

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share awards are recognised as a deduction from equity, net of any tax effects.

(F) Hedge accounting

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows arising from a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately within the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or 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 non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

Prospective hedge effectiveness is performed at the commencement of hedge accounting, and subsequently at each balance sheet date, through comparison of the critical terms of the hedged forecast transaction and the hedging instrument. Critical terms are the maturity, amount and currency of the cash flows relating to the hedging instrument and the forecast hedged transaction. Retrospective hedge effectiveness is performed at each reporting date principally using a dollar offset analysis, comparing the cumulative changes in the fair values of the forecast hedged transaction and the hedging instrument.

When a hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship, hedge accounting is discontinued prospectively. If the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

(ii) Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in equity.)

(G) Revenue

Revenue represents the aggregate amount earned from inclusive tours, scheduled and charter flying, provision of incoming agency destination services, travel agency commission received and other services supplied to customers in the ordinary course of business. Revenue excludes intra-group transactions and is stated after the deduction of trade discounts and sales taxes. Revenue is reported gross of fixed charges which are a liability of the tour operator or airline. These include Air Passenger Duty and other per passenger charges and levies, including the ATOL Protection Contribution in the UK.

Notes to the consolidated financial statements continued

(i) Revenue recognition

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue in respect of in-house product is all recognised on the date of departure. Travel agency commissions and other revenues received from the sale of third-party product are recognised when they are earned, typically on receipt of final payment. Revenue from individual travel modules directly booked by the customer with airlines, hotels and incoming agencies is recognised when the customer departs or uses the respective service.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

(ii) Client monies received in advance (deferred income)

Client monies received at the balance sheet date relating to holidays commencing and flights departing after the year end is deferred and included within trade and other payables.

(iii) Valuation of revenue

Where the Group acts as principal, revenue is stated at the contractual value of goods and services provided.

Where the Group acts as agent and collects amounts on behalf of the principal provider of goods or services, revenue is stated at the value of the commissions earned and not the total transaction sales value.

Where the Group acts as intermediary between the service provider and the end customer, revenue is presented on a net basis as the difference between the sales price to the customer and the cost of the services purchased. Businesses are identified as intermediaries dependent on a number of criteria, principally including: the control exercised over the provision of service, inventory risk, and customer credit risk.

(iv) Aircraft lease income

Operating lease rental incomes are recognised in operating income as earned, on a straight-line basis over the lease term.

(H) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense over the term of the lease.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Marketing and other direct sales costs

Marketing, advertising and other promotional costs, including those related to the production of brochures, are expensed when the benefit of the goods or services is made available to the Group. In particular, brochure costs are expensed when the Group receives the related advertising or promotional material.

(I) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior periods. That benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets is deducted in calculating the overall liability. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having the same maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan which are under the control of the Group.

When the benefits of a plan are improved, the portion of the increased benefit relating to past services by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses are recognised in the period they occur directly in equity through the statement of recognised income and expense. Either monthly or annual contributions are made to funded schemes.

(iii) Share-based payment transactions

Share-based payment transactions

The Group's share award programmes allow certain Group employees to acquire shares of the Company; these awards are granted by the Company. The fair value of services is measured by the fair value of the shares awarded at the time of granting and is recognised as an employee expense with a corresponding increase in equity. The fair value is spread over the period during which the employee becomes entitled to the awards. The fair value of the awards granted is measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of share awards that vest except where forfeiture is due only to market-based performance conditions not meeting the threshold for vesting.

For cash-settled transactions, the resulting liability for the Group is charged to expenses at its fair value as at the date of the performance of the service by the beneficiary. Until payment of this liability, the fair value of the liability is remeasured at every reporting date and all changes in the fair value are carried with an effect on results.

(iv) Own shares held by the Employee Benefit Trust

Transactions of the Group-sponsored Employee Benefit Trust are included in the Group's consolidated financial statements. In particular, the trust's purchase of shares in the Company are debited directly in equity to retained earnings.

(v) Short-term benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

(J) Financial income and expenses

Financial income comprises interest income on funds invested (including available for sale financial assets), dividend income, gains on the disposal of available for sale financial assets, changes in the fair value of financial assets or liabilities at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Foreign currency gains and losses are reported on a net basis.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets or liabilities at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

(K) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

(ii) Deferred tax

Deferred tax is provided or recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill not deductible for tax purposes, the initial recognition of assets or liabilities in a transaction that is not a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax asset recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(L) Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are appropriately authorised and approved for payment and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(M) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. In respect of the year ended 30 September 2008 basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. For the comparative periods, as the majority of the Group's share capital was not in issue for 8 months of the period, the weighted average number of shares would not give a meaningful result and therefore the number of shares outstanding at 30 September 2007 has been used to calculate the prior year basic and diluted earnings per share. The Group also presents a basic and diluted underlying EPS measure based on underlying earnings as defined in Note 1(B) above. Further details of the EPS calculation are presented in Note 33.

(N) Non-current assets held for sale

A non-current asset or a disposal group containing a non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

Notes to the consolidated financial statements continued

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement.

Any impairment loss on a disposal group is allocated first to goodwill and then to remaining applicable assets on a pro rata basis (except no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Group's accounting policies).

(O) Investments

Trade investments are classified as available for sale assets and are included under non-current assets. They are recorded at fair value with movements in value taken to equity. Any impairment to value is recorded in the income statement.

Short-term investments in debt and equity securities which are held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

(P) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method.

Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. Goodwill represents the difference between the fair value of consideration paid or payable and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment. In respect of joint ventures and associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate or joint venture.

Fair value adjustments are made in respect of acquisitions. If at the balance sheet date, the amounts of fair values of the acquiree's identifiable assets and liabilities can only be established provisionally, then these values are used. Any adjustments to these values are taken as adjustments to goodwill and must be recorded within 12 months of the acquisition.

Negative goodwill arising on an acquisition is recognised in the income statement upon acquisition.

(ii) Computer software and other intangible assets

Computer software consists of all software that is not an integral part of the related computer hardware. Computer software and all other intangible assets are stated at cost less accumulated amortisation and impairment losses.

(iii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of each type of intangible asset as follows:

Computer software	– 3-10 years
Brands	– 15-20 years
Order book at date of acquisition	– Over the period up until travel occurs
Customer relationships	– Over the period during which value will be obtained by the Group (up to 15 years)

Goodwill is not amortised but is tested annually for impairment.

(Q) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets acquired by way of a finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as set out in Note 1(H) above.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic lives of each part of an item of property, plant and equipment. Freehold land is not depreciated. The useful economic lives are as follows:

Freehold properties	– Up to 50 years
Short leasehold properties	– Lease period or useful economic life if shorter
Owned aircraft	– Up to 18 years
Finance leased aircraft and equipment	– Lease period or useful economic life if shorter
Aircraft spares	– 12 years
Yachts	– 5-15 years
Motor boats	– 15-24 years
Computer equipment including retail computer equipment	– 3-5 years
Retail fixtures and fittings	– 8 years
Other assets	– 4 years

The cost of major overhauls of owned airframes and engines is capitalised and depreciated over the period until the next scheduled major overhaul.

The depreciation methods, useful economic lives and residual values are reassessed annually. Revisions to useful economic lives and residual values are accounted for prospectively from the date of change.

Assets under construction are not depreciated.

(iv) Sale and leaseback transactions

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised as an impairment loss when the sale occurs.

If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below fair value then the gain or loss is recognised immediately other than to the extent that a loss is compensated for by future rentals at a below-market price, then the loss is deferred and amortised over the period that the asset is expected to be used.
- If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

(R) Impairments

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and its recoverable amount. An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value. The recoverable amount of the Group's receivables which are carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets.) Receivables with a short duration are not discounted.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available for sale financial asset previously recognised in equity is transferred to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available for sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available for sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amount of the Group's non-financial assets, other than inventory and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of goodwill allocated to the cash generating unit and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(S) Inventories

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price less the estimated cost incurred until the sale and the estimated variable costs required to sell. All inventories are written down individually where the net realisable value of inventories is lower than their carrying amounts. The measurement method applied to similar inventory items is the weighted average cost formula.

Notes to the consolidated financial statements continued

(T) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the outflow of economic benefits can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Maintenance provision for leased aircraft

To reflect the legal obligations placed upon the Group under the terms of certain operating leases, provision is made for the maintenance, overhaul and repair costs of operating leased airframes, engines and certain other components. The provision is based on the present value of total anticipated costs over the useful economic life of the asset calculated by reference to costs experienced and published manufacturers' data. The charge to the income statement is calculated by reference to the number of hours and cycles flown and by reference to the length of the full overhaul cycle. Costs incurred are charged against the provision. Neither the timing nor the value of the expenditure can be precisely determined but they can be averaged over time and over a fleet. The unwinding of discounted values is charged to the income statement as a financing expense.

The cost of major overhauls of owned airframes and engines is capitalised and depreciated over the period until the next scheduled major overhaul.

(ii) Restructuring provision

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(U) Minority interest

In the consolidated balance sheet, the share of net assets attributable to minority shareholders is disclosed as a separate component of equity after share capital and reserves, although it is neither a financial liability nor an equity instrument. The consolidated income statement discloses the amount of the result for the period attributable to minority shareholders.

Where the Group has a written put option in respect of a minority interest and has an unavoidable obligation to purchase the shareholding, the minority interest is recorded as a financial liability at fair value, rather than being reported as a separate component of equity. No result is attributable to minority shareholders and instead changes to the fair value of the financial liability are recorded at each period end in the income statement within financing income or financing expense.

On purchase or sale of a minority interest shareholding held in a Group subsidiary, the Group recognises increases or decreases in its interest directly in equity.

(V) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability directly or indirectly, to control the party or exercise significant influence over the party making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(W) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments. As described in Note 2, all items are allocated to segments except corporate costs, net financial expenses, and corporate assets and liabilities.

(X) Use of estimates

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Details of critical judgements, significant estimates and assumptions are disclosed in the relevant notes to the consolidated financial statements. The key estimates and judgements are described in Note 31.

(Y) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of intangible assets recognised as a result of a business combination, including brands, customer relationships and the customer order book at the date of acquisition are valued by reference to external market values or income based methods. Income based methods estimate the future economic benefits to be derived from ownership of the asset by identifying, quantifying and separating cash flows attributable to the asset and capitalising their present value.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held to maturity investments and available for sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held to maturity investments is determined on initial recognition and thereafter for disclosure purposes only.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(vi) Derivatives

The fair value of foreign currency contracts, fuel forward contracts and option contracts is their forward market price at the balance sheet date, based on external valuations or internal valuations using market data.

(vii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(viii) Share-based payments

The fair value of the awards granted is measured using option valuation models, taking into account the terms and conditions upon which the awards were granted. The valuation basis is identical whether the awards will be settled in cash or shares.

(Z) New Standards and interpretations not yet adopted

IFRS 8 Operating Segments has been endorsed by the European Union but is not effective or mandatory for the year ended 30 September 2008 and has not been adopted in preparing these consolidated financial statements.

IFRS 8 introduces the 'management approach' to segment reporting and becomes mandatory for the Group's 2009 consolidated financial statements. IFRS 8 will require the presentation and disclosure of segment information to be based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see Note 2). The Group is currently assessing the impact that this standard will have on the presentation of the consolidated results.

The Group continues to monitor the potential impact of other new standards and interpretations which may be endorsed by the European Union and require adoption by the Group in future accounting periods.

Notes to the consolidated financial statements
continued**2. Segmental information**

Segmental information is presented in the primary format by the Group's business Sectors and, in the secondary format, analysed by geography. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise corporate costs, net financial expense, and corporate assets and liabilities.

(A) Sector analysis

The Sector analysis is based on the Group's management and reporting structure. A detailed explanation of each Sector is included in the Business and Financial Review.

Year ended 30 September 2008

	Mainstream Sector			Total Mainstream Sector £m	Specialist Sector £m	Activity Sector £m	Online Destination Services £m	Joint Ventures and Associates £m	Eliminations /Corporate £m	Total Group £m
	Central Europe £m	Northern Region £m	Western Europe £m							
Revenue										
Total revenue	4,714.1	4,532.2	2,753.0	11,999.3	819.5	779.5	701.0	–	(367.5)	13,931.8
Inter segment revenue	(12.3)	(155.1)	(0.5)	(167.9)	(0.2)	–	(199.4)	–	367.5	–
External revenue										
– continuing operations	4,701.8	4,377.1	2,752.5	11,831.4	807.8	705.4	495.0	–	–	13,839.6
– acquired operations	–	–	–	–	11.5	74.1	6.6	–	–	92.2
Total external revenue	4,701.8	4,377.1	2,752.5	11,831.4	819.3	779.5	501.6	–	–	13,931.8
Operating (loss)/profit	(112.5)	(104.2)	19.8	(196.9)	1.1	(4.4)	41.9	12.0	(37.8)	(184.1)
Amortisation of business combination intangibles	0.6	58.3	2.2	61.1	7.7	8.1	10.0	–	–	86.9
Separately disclosed items	62.6	223.6	15.3	301.5	17.3	45.8	5.5	–	10.6	380.7
Impairment of goodwill	111.7	–	–	111.7	–	–	–	–	–	111.7
Taxation on profits of joint ventures and associates	–	–	–	–	–	–	–	2.8	–	2.8
Underlying operating profit/(loss)	62.4	177.7	37.3	277.4	26.1	49.5	57.4	14.8	(27.2)	398.0
Analysed as:										
– continuing operations	62.4	177.7	37.3	277.4	26.2	41.9	56.6	14.8	(27.2)	389.7
– acquired operations	–	–	–	–	(0.1)	7.6	0.8	–	–	8.3
										398.0
Net financing expenses excluding separately disclosed finance charge of £4.2m										(78.3)
Underlying profit before tax										319.7

Pro forma year ended 30 September 2007 (unaudited)

	Mainstream Sector			Total Mainstream Sector unaudited £m	Specialist Sector unaudited £m	Activity Sector unaudited £m	Online Destination Services unaudited £m	Joint Ventures and Associates unaudited £m	Eliminations /Corporate unaudited £m	Total Group unaudited £m
	Central Europe unaudited £m	Northern Region unaudited £m	Western Europe unaudited £m							
Total external revenue	4,253.6	4,317.4	2,439.6	11,010.6	729.6	658.4	441.3	–	–	12,839.9
Operating (loss)/profit	13.5	(18.6)	(19.3)	(24.4)	9.1	18.8	36.1	10.5	6.0	56.1
Amortisation of business combination intangibles	0.2	0.1	–	0.3	4.0	3.5	9.7	–	–	17.5
Separately disclosed items	27.8	91.2	26.7	145.7	2.9	17.3	3.4	–	(22.0)	147.3
Impairment of goodwill	–	23.4	–	23.4	13.9	–	–	–	–	37.3
Taxation on profits of joint ventures and associates	–	–	–	–	–	–	–	2.3	–	2.3
Underlying operating profit/(loss)	41.5	96.1	7.4	145.0	29.9	39.6	49.2	12.8	(16.0)	260.5
Net financing expenses										(37.7)
Underlying profit before tax										222.8

9-month period ended 30 September 2007

	Mainstream Sector			Total Mainstream Sector £m	Specialist Sector £m	Activity Sector £m	Online Destination Services £m	Joint Ventures and Associates £m	Eliminations /Corporate £m	Total Group £m
	Central Europe £m	Northern Region £m	Western Europe £m							
Revenue										
Total revenue	3,277.7	2,340.7	1,711.5	7,329.9	194.7	284.1	310.9	–	(144.2)	7,975.4
Inter segment revenue	(4.3)	(2.7)	(13.3)	(20.3)	–	–	(123.9)	–	144.2	–
Total external revenue	3,273.4	2,338.0	1,698.2	7,309.6	194.7	284.1	187.0	–	–	7,975.4
Operating profit	40.1	31.5	25.4	97.0	4.1	9.5	26.8	6.9	17.6	161.9
Amortisation of business combination intangibles	–	8.3	0.2	8.5	0.3	0.4	0.8	–	–	10.0
Separately disclosed items	14.5	40.3	5.4	60.2	0.2	0.1	1.1	–	(27.7)	33.9
Impairment of goodwill	–	22.9	–	22.9	–	–	–	–	–	22.9
Taxation on profits of joint ventures and associates	–	–	–	–	–	–	–	1.9	–	1.9
Underlying operating profit/(loss)	54.6	103.0	31.0	188.6	4.6	10.0	28.7	8.8	(10.1)	230.6
Net financing expenses										(9.4)
Underlying profit before tax										221.2

30 September 2008 and the year then ended

	Mainstream Sector			Total Mainstream Sector £m	Specialist Sector £m	Activity Sector £m	Online Destination Services £m	Joint Ventures and Associates £m	Corporate £m	Total Group £m
	Central Europe £m	Northern Region £m	Western Europe £m							
Balance Sheet										
Segment assets	1,230.3	3,636.3	1,184.3	6,050.9	597.4	813.9	1,252.4	114.4	498.2	9,327.2
Segment liabilities	(1,609.9)	(1,975.1)	(934.2)	(4,519.2)	(266.0)	(279.1)	(468.7)	–	(1,197.8)	(6,730.8)
Other disclosures										
Capital expenditure	20.3	102.7	37.4	160.4	3.4	26.3	18.0	–	–	208.1
Depreciation and amortisation of software	43.7	114.7	58.1	216.5	2.5	13.1	11.9	–	–	244.0
Impairment of goodwill and other intangibles	112.5	–	–	112.5	–	1.6	–	–	–	114.1
Impairment of property, plant and equipment	5.6	17.9	–	23.5	–	8.2	–	–	–	31.7

30 September 2007 and the 9-month period then ended

	Mainstream Sector			Total Mainstream Sector £m	Specialist Sector £m	Activity Sector £m	Online Destination Services £m	Joint Ventures and Associates £m	Corporate £m	Total Group £m
	Central Europe £m	Northern Region £m	Western Europe £m							
Balance Sheet										
Segment assets	1,182.0	3,626.7	1,190.7	5,999.4	509.1	627.5	929.2	92.5	1,491.7	9,649.4
Segment liabilities	(1,216.7)	(2,015.8)	(864.9)	(4,097.4)	(204.6)	(196.8)	(360.9)	–	(2,158.9)	(7,018.6)
Other disclosures										
Capital expenditure	14.8	39.5	17.7	72.0	0.3	3.3	4.5	–	–	80.1
Depreciation and amortisation of software	27.9	64.6	24.7	117.2	0.3	3.3	4.0	–	–	124.8
Impairment of goodwill and other intangibles	–	22.9	–	22.9	–	–	–	–	–	22.9

The segmental assets and liabilities above do not include intercompany balances or investments that are eliminated at Group level, and therefore the analysis does not necessarily represent the net equity positions of the Sectors as if they were standalone entities.

Notes to the consolidated financial statements

continued

(B) Geographical analysis of business

In presenting information on the basis of secondary geographic segments, segment revenue is based on the geographic location of the customer that generated that revenue. Segment assets and capital expenditure are based on the geographical location of the assets. Other Europe is defined as Continental Europe and Eire excluding UK, Germany and France. This information is presented for the year ended 30 September 2008. Comparative information is for the 9-month period ended 30 September 2007.

	UK		Germany		France		Other Europe		Rest of the World		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Revenue from												
external customers	4,392.3	2,035.5	3,689.0	2,444.0	1,424.2	692.8	3,681.6	2,346.6	744.7	456.5	13,931.8	7,975.4
Segment assets	3,550.5	3,579.9	1,033.8	900.6	839.6	729.1	2,210.2	1,810.0	1,080.5	1,045.6	8,714.6	8,065.2
Capital expenditure	80.8	42.2	15.6	11.6	16.2	9.6	72.1	16.0	23.4	0.7	208.1	80.1

Segment assets excludes non-operating assets relating to corporate entities and the Group's joint ventures and associates, totalling £612.6m (2007: £1,584.2m).

3. Separately disclosed items

	Year ended 30 September 2008 £m	Pro forma year ended 30 September 2007 unaudited £m	9-month period ended 30 September 2007 £m
Restructuring expenses	65.3	126.1	21.1
Merger related integration costs	164.3	20.9	18.8
Aircraft	151.1	(10.7)	(16.8)
Other	–	11.0	10.8
Total	380.7	147.3	33.9

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

	Year ended 30 September 2008 £m	Pro forma year ended 30 September 2007 unaudited £m	9-month period ended 30 September 2007 £m
Revenue	12.7	–	2.0
Cost of sales	228.2	53.4	5.1
Administrative expenses	139.8	93.9	26.8
Total	380.7	147.3	33.9

Restructuring expenses

Costs incurred in the year ended 30 September 2008 relate to restructuring programmes that were already underway in both the First Choice and TUI Tourism businesses prior to the business combination as well as subsequent restructuring activities across all Sectors. Costs also relate to the integration of acquired businesses into the Group. Principal restructuring projects include the integration of the Sunsail and The Moorings businesses and the restructuring of Le Boat in TUI Marine, the rationalisation of the Nouvelles Frontières tour operator product and Corsair scheduled flying programme in France and an impairment charge in respect of the Thomson Alfresco assets.

The pro forma year ended 30 September 2007 includes major restructuring costs in the TUI Tourism businesses which were provided for in the quarter to 31 December 2006. These costs are therefore not reflected in the 9-month statutory comparative period.

Merger related integration costs

These relate primarily to the costs of integration of the UK businesses, combined with other one-time costs incurred as a result of the merger. The majority of costs arise from the integration of First Choice and Thomson in the UK, and in particular from the formation of one airline and an integrated retail estate. A combined Mainstream UK head office has been established in Luton. Costs also arise from bringing together former Thomson Specialist businesses into the First Choice Activity and Specialist Sectors, notably Ski and UK specialist brands. In the ODS Sector separate First Choice and TUI Tourism incoming agencies have been combined in a number of key destinations.

Costs include amounts paid or provided for redundancy and integration remuneration costs (including the cost of the Value Creation Share Plan and rolled over First Choice share options (Note 5)), property closures and lease obligations, and professional fees relating to the integration project.

IFRS 3 business combination fair value adjustments in respect of First Choice customer deposits held at 3 September 2007 reduced deferred income by £13.7m at that date, reducing statutory revenues for the year ended 30 September 2008. This amount is included within separately disclosed integration items for the year ended 30 September 2008 in order to better present the underlying trading performance of the Group in the current year.

Aircraft

Aircraft costs relate to the restructuring of the aircraft fleet. In the year ended 30 September 2008 costs principally include sale and leaseback losses of £101.7m (see Note 10) and write-downs on aircraft held for sale of £23.5m (see Note 10). Other items include fuel and related currency option premium costs and ineffectiveness on aircraft order book hedging, further details of which are set out in Note 25; adjustments to prior period maintenance provision assumptions; and other fleet reorganisation costs.

In the pro forma comparative period, the costs include £13.9m to bring TUI UK's accounting policy for maintenance provisions in line with the Group's accounting policy. These costs are offset by sale and leaseback credits of £26.5m with remaining costs relating to the early termination of an aircraft lease in First Choice Airways. In the 9-month statutory comparative period ended 30 September 2007, the net credit of £16.8m is the result of sale and leaseback profits of £30.7m offset by the £13.9m charge incurred as a result of the change in maintenance provisioning in TUI UK.

Other costs (prior periods)

Other costs relate primarily to the cost of Airline Passenger Duty which was irrecoverable by the Group under the terms of the related, retrospective legislative change in 2006.

4. Net financial expenses

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Financial income		
Bank interest receivable	42.5	13.1
Interest on pension scheme assets	68.2	44.8
Interest receivable in respect of loans to parent	3.5	34.4
Other financial income	7.8	7.6
Total	122.0	99.9
Financial expenses		
Bank interest payable on loans and overdrafts	(45.2)	(16.6)
Interest payable in respect of loans from parent	(66.8)	(26.8)
Interest on pension scheme liabilities	(71.8)	(47.1)
Finance lease charges on leases	(11.7)	(5.7)
Unwinding of discount on provisions	(4.0)	(2.0)
Other financial expenses	(5.0)	(11.1)
Total	(204.5)	(109.3)
Net financial expenses	(82.5)	(9.4)
Net financial expenses (as above)	(82.5)	(9.4)
Non-underlying acquisition-related financial expenses	4.2	–
Net underlying financial expenses	(78.3)	(9.4)

The non-underlying acquisition-related financial expenses relate to the revaluation of a put option written by the Group in respect of a minority shareholder of L'TUR Tourismus AG. This option is exercisable until 2012. Further details are given in Note 19.

Notes to the consolidated financial statements
continued

5. Employees

	Year ended 30 September 2008 Number	9-month period ended 30 September 2007 Number
(A) Average number of employees		
By Sector		
Mainstream Sector	35,726	28,445
Specialist Sector	2,903	1,344
Activity Sector	4,199	836
Online Destination Services Sector	6,951	3,267
Corporate	222	174
Total	50,001	34,066

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
(B) Staff costs		
Wages and salaries	1,262.8	583.9
Social security costs	216.8	147.9
Pension costs	54.8	34.3
Share-based payments (Note 5D)	14.2	4.9
Total	1,548.6	771.0

Included within wages and salaries are £81.5m (9-month period ended 30 September 2007: £18.0m) of redundancy and integration costs. These costs are included within separately disclosed items (Note 3).

(C) Pension costs

The Group operates pension schemes for employees eligible and wishing to participate in the schemes. These comprise both defined contribution and defined benefit schemes. Pension obligations vary reflecting the different legal and market conditions in each country of operation. Defined contribution schemes are funded by the payment of contributions to private and state-run organisations, whilst defined benefit schemes comprise both funded and unfunded schemes. The assets of all the funded defined benefit schemes are held separately from the assets of the Group.

Defined contribution schemes for employees and Directors

Current contributions are recognised as an expense in the period, and once paid the Group has no further liability. Pension costs of £24.5m (9-month period ended 30 September 2007: £10.6m) relating to defined contribution schemes were charged to the income statement.

Defined benefit pension schemes

The movement of defined benefit pension obligations and assets is detailed below, summarised as UK, Germany and Other territories. Other territories includes funded schemes in Ireland, the Netherlands, Switzerland and Norway, and unfunded arrangements in Austria. Almost all UK schemes are funded whilst German schemes are unfunded. Similar obligations comprise early retirement, ill health retirement and statutory retirement lump sum provisions.

The principal funded schemes in the UK are shown in the table below. These are closed to new members, with the exception of existing employees working towards their entry qualification date:

Scheme Name	Date of last full actuarial valuation	Average Group contribution rate	Average employee contribution rate
Britannia Airways Limited Superannuation and Life Assurance Scheme	31 March 2006	40.2% plus £46.3m per annum	8.25%
TUI Pension Scheme (UK)	31 March 2005	11.7% plus £16.4m per annum	5.3%
Air 2000 Limited Retirement Benefits Scheme	1 November 2006	24.5% plus £1.4m per annum	9.7%
Unijet Group Plc Final Salary Scheme	1 November 2006	24.7% plus £1.3m per annum	10.0%

Where there is more than a single class of membership, contribution rates reflect weighted average values within the scheme.

The principal unfunded schemes in Germany are shown below. These were all subject to a full actuarial valuation within three months preceding the balance sheet date:

Scheme Name	Status
Versorgungsordnung' Hapag-Lloyd Fluggesellschaft mbH	Open to new members
Versorgungsordnung' TUI Deutschland GmbH	Closed to new members
Versorgungsordnung' TUI Leisure Travel GmbH	Closed to new members

Valuations of the schemes are made by qualified actuaries using market-based valuations for the assets and the projected unit method for the liabilities. The Group recognises all actuarial gains or losses in the consolidated statement of recognised income and expense.

The assets of each scheme have been taken at market value and liabilities in each territory have been calculated using the following principal assumptions:

	UK ¹ per annum		Germany per annum		Other per annum	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Inflation	3.6	3.4	N/A	N/A	N/A	N/A
Salary inflation	5.1²	4.9	2.1-3.5¹	2.0-2.5 ¹	0.0-2.0¹	0.0-2.0 ¹
Discount Rate	6.9	5.6	6.75	5.5	4.1⁴	4.9 ⁴

¹ In Germany the salary inflation assumption is a percentage increment relative to inflation.

² 5.1% is applicable across all UK Schemes with the exception of the Britannia Airways Limited Superannuation and Life Assurance Scheme which has assumed salary inflation of 4.6% plus 0.8% to reflect annual service increments.

³ Pension increases in the UK Schemes reflect the general inflation assumption, subject to minimum and maximum increase limits.

⁴ The discount rate for Other territories is a weighted average.

The mortality assumptions underlying the value of the accrued liabilities for each territory are set out in the tables below. The mortality assumptions are based on relevant standard mortality tables in each country:

UK life expectancy	2008 Years	2007 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	22.9	22.0
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	24.1	23.1
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	25.3	24.8
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	26.3	25.9
Germany life expectancy	2008 Years	2007 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	18.0	17.9
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	20.7	20.6
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	22.1	22.0
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	24.7	24.6
Other life expectancy (weighted average)	2008 Years	2007 Years
Males		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	18.8	17.5
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	20.0	18.1
Females		
Life expectancy in years for a pensioner retiring aged 65, on the balance sheet date	21.7	21.3
Life expectancy in years for a pensioner retiring aged 65, 20 years after the balance sheet date	22.4	22.0

Notes to the consolidated financial statements
continued

The fair value of assets of the schemes in each territory at 30 September 2008 and 30 September 2007 are set out below.

	UK		Germany		Other		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Equities	427.1	550.3	–	–	38.2	38.2	465.3	588.5
Bonds	268.1	282.9	–	–	48.8	45.5	316.9	328.4
Property	14.5	7.8	–	–	0.8	0.1	15.3	7.9
Other	99.9	50.4	–	–	26.3	19.4	126.2	69.8
Total	809.6	891.4	–	–	114.1	103.2	923.7	994.6

The expected rates of return on each category of assets in each territory are as follows:

	UK		Germany		Other	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Equities	8.2	7.9	N/A	N/A	8.0	8.0
Government debt	4.7	4.7	N/A	N/A	4.3	4.3
Corporate bonds	7.3	5.9	N/A	N/A	4.3	4.3
Property	8.2	7.2	N/A	N/A	6.7	6.7
Other	5.0	5.1	N/A	N/A	2.5–4.7	2.5–4.7

The fair value of the schemes' assets are not intended to be realised in the short-term and may be subject to significant change before they are realised.

Changes in the fair value of scheme assets in each territory are as follows:

	UK		Germany		Other		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Balance at beginning of year/period	891.4	781.5	–	–	103.2	95.7	994.6	877.2
Expected return on plan assets	62.5	41.1	–	–	5.7	3.7	68.2	44.8
Company contributions	67.7	31.1	–	–	2.5	1.4	70.2	32.5
Member contributions	5.8	4.9	–	–	1.2	0.7	7.0	5.6
Benefits paid	(39.7)	(33.9)	–	–	(3.5)	(0.7)	(43.2)	(34.6)
Settlements and curtailments	–	–	–	–	(0.3)	(1.6)	(0.3)	(1.6)
Experience losses	(178.1)	(7.0)	–	–	(14.7)	(1.0)	(192.8)	(8.0)
Amounts arising from acquisitions	–	73.7	–	–	–	1.7	–	75.4
Amounts arising from transfers in	–	–	–	–	4.4	–	4.4	–
Exchange difference	–	–	–	–	15.6	3.3	15.6	3.3
Balance at end of year/period	809.6	891.4	–	–	114.1	103.2	923.7	994.6
Actual return on plan assets	(115.6)	34.1	–	–	(9.0)	2.7	(124.6)	36.8

Employer contributions in the next year are expected to be £87.7m in respect of the UK and £2.6m in respect of Other territory.

The composition of the fair value of plan assets in each territory is as follows:

	UK		Germany		Other		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Schemes with surplus of assets	1.4	1.7	–	–	91.2	88.9	92.6	90.6
Schemes with deficit of assets	808.2	889.7	–	–	22.9	14.3	831.1	904.0
Total	809.6	891.4	–	–	114.1	103.2	923.7	994.6

Changes in the present value of defined benefit obligations in each territory are as follows:

	UK		Germany		Other		Similar obligations		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Balance at beginning of year/period	1,144.2	1,125.1	47.9	53.3	85.1	91.7	11.5	10.9	1,288.7	1,281.0
Current service cost	25.2	19.9	2.1	1.5	2.8	1.6	0.6	0.8	30.7	23.8
Past service cost	–	–	0.1	(0.1)	–	–	–	–	0.1	(0.1)
Interest cost on obligation	63.9	42.2	2.9	1.9	4.5	2.8	0.5	0.2	71.8	47.1
Benefits paid	(40.1)	(33.8)	(1.5)	(0.8)	(3.6)	(0.8)	(0.4)	(0.2)	(45.6)	(35.6)
Member contributions	5.8	4.9	–	–	1.2	0.7	–	–	7.0	5.6
Experience gains	(184.2)	(94.6)	(7.8)	(11.1)	(3.6)	(13.2)	(1.9)	(0.5)	(197.5)	(119.4)
Curtailement	(0.1)	–	–	–	(0.3)	(1.6)	(0.4)	–	(0.8)	(1.6)
Amounts arising from acquisitions	–	80.5	–	–	–	1.2	–	–	–	81.7
Amounts arising from transfers in	–	–	0.4	1.3	2.4	–	–	–	2.8	1.3
Exchange difference	–	–	6.1	1.9	13.2	2.7	1.3	0.3	20.6	4.9
Balance at end of year/period	1,014.7	1,144.2	50.2	47.9	101.7	85.1	11.2	11.5	1,177.8	1,288.7

Amounts arising from acquisitions in the comparative period relate to the acquisition of First Choice Holidays PLC.

The amounts recognised in the income statement for the year ended 30 September 2008 and for the 9-month period ended 30 September 2007 for each territory are as follows:

	UK		Germany		Other		Similar obligations		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Current service cost	25.2	19.9	2.1	1.5	2.8	1.6	0.6	0.8	30.7	23.8
Gains on curtailments and settlements	(0.1)	–	–	–	–	–	(0.4)	–	(0.5)	–
Past service cost	–	–	0.1	(0.1)	–	–	–	–	0.1	(0.1)
Interest on defined benefit pension plan obligation	63.9	42.2	2.9	1.9	4.5	2.8	0.5	0.2	71.8	47.1
Expected return on defined benefit pension plan	(62.5)	(41.1)	–	–	(5.7)	(3.7)	–	–	(68.2)	(44.8)
Total	26.5	21.0	5.1	3.3	1.6	0.7	0.7	1.0	33.9	26.0

These amounts are included within the following expense/(income) categories in the consolidated income statement:

	UK		Germany		Other		Similar obligations		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Cost of sales	15.2	12.5	1.3	1.0	1.5	0.8	0.2	0.8	18.2	15.1
Administrative expenses	9.9	7.4	0.9	0.4	1.3	0.8	–	–	12.1	8.6
Financial expenses	63.9	42.2	2.9	1.9	4.5	2.8	0.5	0.2	71.8	47.1
Financial income	(62.5)	(41.1)	–	–	(5.7)	(3.7)	–	–	(68.2)	(44.8)
Total	26.5	21.0	5.1	3.3	1.6	0.7	0.7	1.0	33.9	26.0

Notes to the consolidated financial statements
continued

The amounts recognised directly in equity for the year ended 30 September 2008 and for the 9-month period ended 30 September 2007 for each territory are as follows:

	UK		Germany		Other		Similar obligations		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Cumulative losses/(gains) brought forward	210.1	297.7	(0.3)	10.9	(10.0)	2.5	0.5	1.0	200.3	312.1
Gains recognised during the year/period	(5.8)	(87.6)	(7.8)	(11.1)	11.1	(12.2)	(1.9)	(0.5)	(4.4)	(111.4)
Exchange adjustments	-	-	(0.1)	(0.1)	(1.2)	(0.3)	-	-	(1.3)	(0.4)
Cumulative losses/(gains) carried forward	204.3	210.1	(8.2)	(0.3)	(0.1)	(10.0)	(1.4)	0.5	194.6	200.3

Trend analysis information in respect of the UK, Germany and Other territories is as follows:

UK

UK Balance Sheet	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	809.6	891.4	781.5	697.6	562.1
Present value of scheme liabilities	(1,014.7)	(1,144.2)	(1,125.1)	(1,181.1)	(880.8)
Deficit	(205.1)	(252.8)	(343.6)	(483.5)	(318.7)

UK Experience adjustments	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Experience loss/(gain) on plan assets	(178.1)	(7.0)	10.9	68.5	13.7
Experience gain/(loss) on plan liabilities	184.2	94.6	107.6	(239.8)	(17.3)

Germany

Germany Balance Sheet	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	-	-	-	-	-
Present value of scheme liabilities	(50.2)	(47.9)	(52.8)	(48.5)	(44.5)
Deficit	(50.2)	(47.9)	(52.8)	(48.5)	(44.5)

Germany Experience adjustments	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Experience gain/(loss) on plan assets	-	-	-	-	-
Experience gain/(loss) on plan liabilities	7.8	11.1	(0.6)	(2.2)	(6.6)

Other

Other Balance Sheet	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	114.1	103.2	91.0	76.8	72.8
Present value of scheme liabilities	(101.7)	(85.1)	(87.3)	(79.9)	(75.9)
Surplus/(Deficit)	12.4	18.1	3.7	(3.1)	(3.1)

Other Experience adjustments	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Experience loss/(gain) on plan assets	(14.7)	(1.0)	(0.2)	3.4	2.1
Experience gain/(loss) on plan liabilities	3.6	13.2	10.1	(3.8)	(4.5)

Total

All Territories' Balance Sheet	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of scheme assets	923.7	994.6	872.5	774.4	634.9
Present value of scheme liabilities	(1,166.6)	(1,277.2)	(1,265.2)	(1,309.5)	(1,001.2)
Deficit	(242.9)	(282.6)	(392.7)	(535.1)	(366.3)

The present value of scheme liabilities excludes liabilities relating to similar obligations of £11.2m (2007: 11.5m).

All Territories' Experience adjustments	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Experience loss/(gain) on plan assets	(192.8)	(8.0)	10.7	71.9	15.8
Experience gain/(loss) on plan liabilities	195.6	118.9	117.1	(245.8)	(28.4)

The experience adjustments exclude losses relating to similar obligations of £1.9m (2007: £0.5m).

The movement in the net deficit for pensions and similar obligations is as follows:

	UK		Germany		Other		Similar obligations		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Balance at beginning of period	252.8	343.6	48.0	53.4	(18.1)	(4.0)	10.2	9.6	292.9	402.6
Provisions made during the period	–	–	5.1	3.3	0.8	–	1.2	1.1	7.1	4.4
Provisions used during the period	(41.6)	(10.0)	(1.5)	(0.8)	(1.8)	(0.8)	(1.0)	(0.3)	(45.9)	(11.9)
Amounts arising from acquisitions and disposals	–	6.8	–	–	–	(0.5)	–	–	–	6.3
Amounts arising from transfers in and out	–	–	0.4	1.3	(2.0)	–	–	–	(1.6)	1.3
Actuarial (Gain)/Loss recognised in equity	(5.8)	(87.6)	(7.8)	(11.1)	11.1	(12.2)	(1.9)	(0.5)	(4.4)	(111.4)
Exchange difference	–	–	6.1	1.9	(2.4)	(0.6)	1.3	0.3	5.0	1.6
Balance at end of period	205.4	252.8	50.3	48.0	(12.4)	(18.1)	9.8	10.2	253.1	292.9

Notes to the consolidated financial statements
continued

Reconciliation of defined benefit obligations and plan assets to values recognised in the Balance Sheet:

	UK		Germany		Other		Similar Obligations		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Present value of funded defined benefit obligations	1,013.5	1,142.6	–	–	100.1	83.4	–	–	1,113.6	1,226.0
Fair value of plan assets	(809.6)	(891.4)	–	–	(114.1)	(103.2)	–	–	(923.7)	(994.6)
Present value of unfunded defined benefit obligations	1.2	1.6	50.2	47.9	1.6	1.7	11.2	11.5	64.2	62.7
Unrecognised past service benefit/(cost)	–	–	0.1	0.1	–	–	(1.4)	(1.3)	(1.3)	(1.2)
Asset recognition limited under IAS 19	0.3	–	–	–	–	–	–	–	0.3	–
Recognised liability for defined benefit obligation	205.4	252.8	50.3	48.0	(12.4)	(18.1)	9.8	10.2	253.1	292.9
Analysed as:										
Employee benefit non-current assets	–	–	–	–	(16.9)	(20.8)	–	–	(16.9)	(20.8)
Employee benefit current liabilities	–	–	2.0	1.9	–	0.8	–	0.2	2.0	2.9
Employee benefit non-current liabilities	205.4	252.8	48.3	46.1	4.5	1.9	9.8	10.0	268.0	310.8
Total	205.4	252.8	50.3	48.0	(12.4)	(18.1)	9.8	10.2	253.1	292.9

Due to financial market volatility since the year end, the Directors have considered the potential impact on the net pension deficit as reported at 30 September 2008. It is anticipated that in respect of the most material UK schemes, the market value of assets has fallen due to decreases in equity values. However, it is estimated that this fall will be materially offset by lower pension liabilities due to an increase in the effective liability discount rate. The effective liability discount rate increase is due to the combined effect of an increase in AA bond yields and a fall in expected future inflation indicated by the gilts market.

An indication of the sensitivity of the fair value of the defined pension deficit to the key financial and demographic assumptions is illustrated by the following estimates which are in respect of the Group's UK obligations. An increase or decrease in the discount rate of 0.2 basis points would decrease or increase the UK pension deficit by £36m. The addition of a 1% per annum mortality underpin to future improvements would increase the UK pension deficit by an estimated £15m.

If endorsed by the European Union, IFRIC 14 IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction will be applicable for annual periods beginning on or after 1 January 2008 and will therefore be applicable for the Group in the year ending 30 September 2009. IFRIC 14 may limit the value of net pension surpluses which are recognisable and it may require an additional pension liability to be recognised. The Group is currently assessing the impact that this standard would have on the presentation of the consolidated balance sheet.

(D) Share award and option schemes

The Company operates three principal share award schemes which are designed to link remuneration to the future performance of the Group. The schemes are the Performance Share Plan (PSP), the Deferred Annual Bonus Scheme (DABS) and the Value Creation Synergy Plan (VCSP). All three schemes are described on pages 49 to 59, along with the relevant vesting criteria.

At 30 September 2008 the awards granted and outstanding in respect of ordinary shares, were as follows:

Share award scheme	Number of shares	Date first exercisable
Performance Share Plan	881,283	14 December 2008
	632,961	14 December 2008
	79,292	19 June 2009
	439,255	13 February 2010
	1,236,180	13 February 2010
	1,263,821	13 February 2010
	1,951,561	13 September 2010
	657,114	19 December 2010
	2,958,977	19 December 2010
136,821	19 May 2011	
Deferred Annual Bonus Scheme	597,782	14 December 2008
	846,090	13 February 2010
	3,574,672	19 December 2010
Value Creation Synergy Plan	–	N/A
Total	15,255,809	

The number of share awards/options at the beginning and end of the year/period is as follows:

	Number of awards/options 30 September 2008	Number of awards/options 30 September 2007
Outstanding at beginning of the year/period	12,863,958	–
Forfeited during the year/period	(699,465)	–
Exercised during the year/period	(4,368,347)	–
Rolled over from First Choice Holidays PLC	–	8,269,225
Granted during the year/period	7,459,663	4,594,733
Outstanding at the end of the year/period	15,255,809	12,863,958

At the end of the year ended 30 September 2008, no awards/options were immediately exercisable (2007: 4,142,777).

On 3 September 2007, First Choice Holidays PLC was acquired by TUI Travel PLC. The terms of the First Choice Holidays PLC schemes resulted in many awards/options vesting and becoming immediately exercisable on the change of control. Certain share awards in First Choice Holidays PLC's Deferred Annual Bonus Scheme and the First Choice Holidays PLC's Performance Share Plan were rolled forward to become awards in respect of shares in TUI Travel PLC. The income statement charge for these awards is based on their fair value as at 3 September 2007 charged over the remaining vesting period. No material awards have been made to date under the Group's HMRC-approved Share Incentive Plan which is an all-employee share plan.

Notes to the consolidated financial statements
continued

The fair value of services received in return for share awards granted during the year is measured by reference to the fair value of the share awards granted. The fair value at the date of grant of shares awarded during the year has been estimated using a binomial methodology for all schemes except where there is a market-based performance condition attached to vesting, in which case a Monte Carlo simulation was used. The principal assumptions required by these methodologies were:

	2008	2007	2006
Information relating to fair values of share options and awards granted			
Fair value at measurement date	£1.05-£2.42	£1.09-£2.71	£1.35-£2.56
Share price	£2.51-£2.70	£2.60-£2.86	£2.17-£2.29
Exercise price	-	-	-
Expected volatility	30.4%-34.8%	25.7%-28.4%	23.4%-27.8%
Award/option life	3 years	3 years	3 years
Expected dividends	3.6%	3.8%	4.0%
Risk free interest rate	4.52%-4.75%	5.05%-5.35%	4.29%-4.32%

Participants are not entitled to dividends prior to vesting. Expected volatility is based on historic volatility adjusted for changes to future volatility indicated by publicly available information. Share options/awards were granted under a service condition.

Employee expenses for the year

Employee expenses for the current year and prior period relating to share-based schemes are:

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Share options granted in 2006	1.3	0.1
Share awards granted in 2007	6.1	0.2
Share awards granted in 2008	6.1	-
Expense arising for share appreciation rights	0.7	4.6
Total	14.2	4.9

Included in the charge for equity awards made in 2008 is £2.9m relating to the VCSP. The shares this charge corresponds to will be awarded after the date of these accounts.

Of the £14.2m total employee expenses relating to share-based schemes incurred in the year ended 30 September 2008 £8.7m (9-month period ended 30 September 2007: £nil) is included within separately disclosed items (Note 3) as relating to specific remuneration incurred for post merger integration.

The future estimated expense for share award schemes outstanding at 30 September is:

	30 September 2008 £m	30 September 2007 £m
To be incurred within one year	13.0	8.4
To be incurred after more than one year	10.8	8.5
Total	23.8	16.9

(E) Remuneration of Directors

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Emoluments	11.8	0.6
Pensions and other retirement benefits	1.2	0.1
Total	13.0	0.7

In the comparative period, the Directors were only directors of TUI Travel PLC for one month (post business combination); the amounts disclosed in this note for the 9-month period therefore represent their remuneration for that 1 month.

Further information is provided in the Remuneration Report on pages 49 to 59.

6. Income, expenses and auditors' remuneration

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Included in the income statement for the year/period are the following charges/(credits)		
Operating lease income, aircraft	(5.5)	(6.3)
Operating lease rentals, land and buildings	166.9	60.1
Operating lease rentals, aircraft and other equipment	326.9	181.0
Depreciation of property, plant and equipment	206.4	101.9
Amortisation of intangible assets	124.5	32.9
Charge for share-based payments	14.2	4.9
Loss on sale of property, plant and equipment	71.4	12.3
Loss on foreign currency retranslation	25.1	3.4
Impairment of goodwill and other intangibles	114.1	22.9
Impairment of property, plant and equipment	31.7	–

Operating lease rentals, land and buildings, includes £18.8m of costs included in separately disclosed items (Note 3) as provisions for onerous leases, primarily related to the integration of the UK Thomson/First Choice retail estate and other leasehold obligations. In addition to the operating lease rentals disclosed above, charges of £77.0m (9-month period ended 30 September 2007: £50.0m) were incurred in respect of hotel accommodation rentals which are disclosed as operating leases under IFRIC 4: Determining whether an arrangement contains a lease.

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Auditors' remuneration		
Auditors' remuneration for these financial statements and other Group subsidiary financial statements pursuant to legislation	2.4	1.4
Other services pursuant to legislation (including regulatory reporting)	0.6	0.1
Other services (including corporate finance transactions)	0.5	1.8

Auditors' remuneration refers to fees paid to the Group's auditors, KPMG Audit Plc and its associates and does not include fees paid to other auditors who audit subsidiaries of the Group. Auditors' remuneration in the comparative period relates solely to subsidiary financial statements.

Other services (including corporate finance transactions) in the 9-month period ended 30 September 2007 includes £1.3m relating to the Company's listing and share issue. These fees are included in the share issue costs debited to equity in the prior period (Note 24).

Notes to the consolidated financial statements
continued**7. Taxation**

The tax (credit)/charge can be summarised as follows:

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
(i) Analysis of (credit)/charge in the year/period		
Current tax charge:		
UK corporation tax on profits of the year/period	–	9.7
Non-UK tax on profits of the year/period	54.1	29.7
Adjustments in respect of previous periods	0.3	5.6
	54.4	45.0
Deferred tax (credit)/charge:		
Origination and reversal of timing differences:		
Current year/period UK	(42.8)	(0.8)
Current year/period non-UK	(11.9)	31.6
Adjustments in respect of previous periods	0.2	3.7
	(54.5)	34.5
Total income tax (credit)/charge in income statement	(0.1)	79.5

(ii) Reconciliation of effective tax rate

The total tax (credit)/charge for the year is lower (9-month period ended 30 September 2007: higher) than the standard rate of corporation tax in the UK of 29% (9-month period ended 30 September 2007: 30%). The differences are explained below:

	Year ended 30 September 2008 £m	Year ended 30 September 2008 %	9-month period ended 30 September 2007 £m	9-month period ended 30 September 2007 %
(Loss)/profit before tax reported in the income statement	(266.6)		152.5	
Less share of profit in joint ventures and associates	(12.0)		(6.9)	
	(278.6)		145.6	
Income tax on (loss) / profit before tax excluding share of profit of joint ventures and associates at the standard rate of UK tax of 29% (9-month period ended 30 September 2007: 30%)	(80.8)	29.0%	43.7	30.0%
Expenses not deductible for tax purposes	39.0	(14.0)%	10.3	7.1%
Utilisation of tax losses	–	–	(0.8)	(0.5)%
Non-utilisation of tax losses	44.3	(15.9)%	1.3	0.9%
Higher tax rates on overseas earnings	(0.2)	0.1%	18.8	12.9%
Lower tax rates on overseas earnings	(2.9)	1.0%	(3.1)	(2.1)%
Adjustments to taxation in respect of previous periods	0.5	(0.2)%	9.3	6.4%
Total income tax (credit)/charge in income statement	(0.1)	0.0%	79.5	54.6%

In the year ended 30 September 2008 expenses not deductible for tax purposes included the tax effect (at 29%) of the £111.7m goodwill impairment charge in respect of TUIfly (Note 9). Also in the current year, non-utilisation of tax losses principally arose from restructuring and integration costs.

The underlying effective rate of taxation for the year ended 30 September 2008 is calculated based on underlying profit before tax (excluding separately disclosed items, amortisation of IFRS 3 business combination intangibles, goodwill impairment charges and financing expenses on income arising on the revaluation of minority put options liabilities) and is calculated as 28%. The actual tax rate of 0% differs from the underlying effective tax rate due to actual tax reflecting the non-deductibility for tax purposes of goodwill impairment and certain separately disclosed items. This actual tax rate also reflects non-utilisation of tax losses arising on certain separately disclosed items due to uncertainty as to the timing of their utilisation.

(iii) Deferred tax recognised directly in equity

The following taxation has been recognised directly in equity within the statement of recognised income and expense:

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Property, plant and equipment	0.3	0.2
Receivables and other assets	(0.3)	–
Cash flow hedges	58.4	2.4
Equity-settled transactions	1.2	–
Defined benefit pension plans	3.0	28.1
Total	62.6	30.7

8. Dividends

The following dividends relating to ordinary shares have been deducted from equity in the year/period:

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Initial interim dividend paid for 2007 of 5.9p per share (2007: interim 2.5p per share)	65.4	13.2

The interim dividend in respect of the 6-month period to 31 March 2008 of 2.8p was paid on the 1 October 2008 and this dividend of £30.9m will be recognised as a deduction from equity in the year ending 30 September 2009.

Subsequent to the balance sheet date, the Directors have proposed a final dividend of 6.9p per share (2007: initial interim dividend of 5.9p per share) payable on 6 April 2009 to the holders of relevant shares on the register at 13 March 2009. The final proposed dividend amounts to £76.3m and will, after approval by shareholders, be recognised in the consolidated financial statements for the year ending 30 September 2009. The final ordinary dividend of 6.9p per share, together with the interim dividend of 2.8p per share, makes a total dividend of 9.7p per share relating to the year ended 30 September 2008. The dividend for the 9-month period ended 30 September 2007 comprises an interim dividend of 2.5p per share, which taken together with the dividend paid prior to the business combination would result in a total dividend for the year ended September 2007 of 8.4p per share.

A dividend reinvestment plan is in operation. Those shareholders who have not elected to participate in this plan, and who would like to participate with respect to the 2008 final dividend, may do so by contacting Equiniti direct on 0871 384 2030. The last day for election for the final proposed dividend is 23 March 2009 and any requests should be made in good time ahead of that date.

Notes to the consolidated financial statements
continued

9. Intangible assets

	Goodwill £m	Brands £m	Customer relationships £m	Computer software £m	Licences £m	Software in development £m	Other £m	Total £m
Cost								
At 1 January 2007	2,252.3	1.7	1.7	194.6	31.1	1.3	0.8	2,483.5
Additions	0.7	2.5	0.2	14.9	0.9	1.5	0.2	20.9
Acquisition through business combinations	1,680.4	351.9	156.5	66.3	10.0	–	126.5	2,391.6
Disposals	(0.2)	–	–	(3.3)	–	–	–	(3.5)
Reclassification to assets held for sale	(95.5)	–	–	–	–	(1.0)	–	(96.5)
Effect of movement in exchange rates	45.4	6.3	2.8	(2.9)	1.0	2.1	5.2	59.9
At 30 September 2007	3,883.1	362.4	161.2	269.6	43.0	3.9	132.7	4,855.9
Additions	1.8	0.4	0.4	33.7	3.0	18.4	–	57.7
Acquisition through business combinations	81.5	29.9	22.5	–	6.6	–	3.4	143.9
Disposals	(2.6)	–	(0.5)	(0.8)	(1.2)	(4.6)	–	(9.7)
Effect of movement in exchange rates	230.1	22.3	19.2	6.1	6.1	0.1	1.9	285.8
At 30 September 2008	4,193.9	415.0	202.8	308.6	57.5	17.8	138.0	5,333.6
Amortisation and impairment losses								
At 1 January 2007	(468.2)	(0.3)	(0.2)	(136.9)	(21.2)	–	(0.8)	(627.6)
Acquisitions through business combinations	–	–	–	(24.7)	(3.8)	–	–	(28.5)
Amortisation for the period	–	(1.9)	(1.7)	(19.9)	(1.7)	–	(7.7)	(32.9)
Impairment loss	(22.9)	–	–	–	–	–	–	(22.9)
Disposals	–	–	–	1.1	0.7	–	–	1.8
Reclassification to assets held for sale	74.4	–	–	–	–	–	–	74.4
Effect of movement in exchange rates	(3.2)	–	–	0.4	(0.7)	–	0.2	(3.3)
At 30 September 2007	(419.9)	(2.2)	(1.9)	(180.0)	(26.7)	–	(8.3)	(639.0)
Amortisation for the year	–	(20.4)	(13.8)	(37.6)	(4.0)	–	(48.7)	(124.5)
Impairment loss	(111.7)	–	(0.5)	(0.3)	(1.6)	–	–	(114.1)
Disposals	0.2	–	0.5	–	1.1	–	–	1.8
Effect of movement in exchange rates	(23.0)	(0.7)	(1.0)	–	(3.5)	–	(0.9)	(29.1)
At 30 September 2008	(554.4)	(23.3)	(16.7)	(217.9)	(34.7)	–	(57.9)	(904.9)
Net book value								
At 1 January 2007	1,784.1	1.4	1.5	57.7	9.9	1.3	–	1,855.9
At 30 September 2007	3,463.2	360.2	159.3	89.6	16.3	3.9	124.4	4,216.9
At 30 September 2008	3,639.5	391.7	186.1	90.7	22.8	17.8	80.1	4,428.7

Amortisation of intangible assets is recognised within cost of sales in the income statement.

The goodwill impairment losses incurred in 2008 relate to TUIfly, the Group's airline in Germany and the impairment losses incurred in 2007 relate primarily to the write down to fair value less costs to sell of the Group's Irish retail business, Budget Travel Limited. This was presented as a disposal group held for sale at 30 September 2007 and subsequently sold in October 2007. Both impairment charges are disclosed within administrative expenses and shown separately on the face of the income statement.

Amortisation of business combination intangibles totalling £86.9m (9-month period ended 30 September 2007: £10.0m) shown on the face of the income statement relates primarily to the amortisation of brands, the order book (shown within other, above) and customer relationships. The remaining useful economic lives of these assets is up to 19 years.

Amortisation of business combination intangibles, and depreciation combined with amortisation of other intangible assets is disclosed by segment in Note 2. Impairment of intangible assets by segment is also disclosed in Note 2.

The aggregate carrying amounts of goodwill allocated to each principal cash generating unit (CGU) are as follows:

CGU	Sector	30 September 2008 £m	30 September 2007 £m
UK and Ireland	Mainstream Northern Region	1,500.9	1,494.3
Incoming agencies/Hotelbeds	Online Destination Services	435.6	381.2
Germany (integrated tour operations and TUIfly)	Mainstream Central Europe Region	352.0	416.3
Nordics	Mainstream Northern Region	242.5	240.9
LateRooms	Online Destination Services	111.5	111.1
Marmara	Mainstream Western Europe	103.2	90.5
Nouvelles Frontières	Mainstream Western Europe	97.2	81.8
Multiple CGUs	All sectors	796.6	647.1
Total goodwill		3,639.5	3,463.2

Once every year or more frequently if events or a change in the economic environment indicate a risk of impairment, the Group assesses the recoverable amount of goodwill allocated to its CGUs as required by IAS 36: Impairment of assets. The recoverable value of goodwill for all CGUs has been determined based on value in use.

The multiple CGUs not separately listed above do not individually represent more than 3% of total Group goodwill. All CGUs have been individually tested for impairment.

IAS 36 requires that impairment tests are carried out on CGUs, following the level at which the Group's management measures returns on operations.

The calculation of recoverable amount uses the following assumptions:

- Cash flow projections based on the Group's latest approved five-year business plan.
- Cash flows beyond the plan period are extrapolated using an inflationary only growth rate of 1%. This growth rate is lower than the forecast medium-term GDP growth rates of the key geographic markets in which the Group operates at the time the projections are prepared.
- Cash flows are discounted using the Group's weighted average cost of capital, adjusted as appropriate for business specific factors of sector risk, business size and geographic risk.
- The Group's weighted average cost of capital has been based on the range of historical values of the Group's weighted average cost of capital to avoid distortion due to short-term volatility in the UK stock market; the Group consider this approach is reasonable since the cash flow projections have been sensitised to take account of the estimated impact of the global downturn on consumer demand.
- Since determination of an appropriate Group weighted average cost of capital was judgemental, sensitivities also addressed how increases in the base Group weighted average cost of capital might impact the results of the impairment tests.
- Central group overheads are borne in full by CGUs and are allocated pro rata to the CGU's underlying operating profit.
- Where draft 2009 budgets indicate lower underlying operating profit than the five-year business plan for any CGU, cash flow projections were re-run based on the lower underlying operating profit information to confirm that initial findings remained valid.

The calculation of recoverable amount is sensitive to forecast future earnings and, particularly, the discount rates used:

- A 20 percent decrease in future planned earnings for both the year ending 30 September 2009 and the year ending 30 September 2010 would still result in significant headroom positions for all the principal CGUs detailed in the table above.
- For the principal CGUs detailed in the table above, an increase of 1 – 1.5 percentage points in the discount rates used would not change the conclusion that the carrying value of goodwill is supported by its recoverable amount.

The sensitivities disclosed immediately above do not take account of any mitigating action that management would take should earnings decrease.

Other key assumptions are in respect of the short and medium-term post-acquisition earnings of acquired operations within the Activity, Online Destination Services and Specialist Sectors. The forecast earnings of these newly acquired businesses are inherently more judgemental over these timeframes.

Notes to the consolidated financial statements

continued

The pre-tax discount rates used for each CGU or group of similar CGUs are as follows:

Sector	Cash generating units (CGUs)	Pre-tax discount rate used
Mainstream	UK and Ireland	8.5%
	Germany	9.5%
	Nordics	10.5%
	Marmara	9.5%
	Nouvelles Frontières	9.5%
	Other CGUs*	10.5%
Specialist & Emerging Markets	European Specialist businesses*	11%
	American Specialist businesses*	11%
Activity	Marine businesses*	11.5%-12.5%
	Sport, Adventure, Student and Ski businesses*	13%
Online Destination Services	Incoming agencies/Hotelbeds	10.75%
	LateRooms	11.5%
	Other CGUs*	11.5% - 12.5%

* multiple individual CGUs

Based on the calculations undertaken, the Directors consider that the recoverable amount of goodwill in each CGU exceeds its carrying value.

Impairment charges

Impairment charges have arisen as a result of the Group's restructuring post business combination.

TUIfly

A £111.7m impairment charge in respect of goodwill in Germany has been recorded in the year, relating to TUIfly, the Group's airline in the German source market, part of the Central European Mainstream Sector.

The goodwill impairment arose as a result of the reclassification of TUIfly as a disposal group held for sale during the current financial year, as at 30 June 2008. This reclassification was undertaken based on the plan to dispose of the airline into a new joint venture undertaking which would continue to provide flying capacity to the German source market tour operator. The goodwill impairment charge was calculated based on the fair value less costs to sell of TUIfly under the terms of the planned joint venture arrangement, which was on a commercial arms length basis.

As at 30 September 2008, TUIfly has since been declassified as a disposal group held for sale and reclassified within the Group's ongoing non-current and current assets and liabilities. This is on the basis that a disposal transaction is no longer considered sufficiently probable. The impairment charge recorded during the year has not been reversed at 30 September 2008, based on management's ongoing strategic review of TUIfly which may result in future restructuring and associated costs.

At the year end, an assessment of the value in use of the Group's German business has also been undertaken, including TUIfly. The German business has been assessed as one CGU due to the current integration and shared source market of the German tour operator and TUIfly airline. This calculation has been undertaken using the methodology and assumptions disclosed above and supports the carrying value of goodwill carried forward at 30 September 2008.

Budget Travel, Ireland

In the 9-month period ended 30 September 2007, an impairment charge of £22.9m was recorded against the carrying value of goodwill in the Group's Irish retail business, Budget Travel Limited, following the reclassification of this business as a disposal group held for sale. The impairment charge was calculated based on the fair value of the business, less costs to sell. Subsequent to 30 September 2007, in October 2007 the business was disposed for its book value. Budget Travel Limited formed part of the Northern Europe Mainstream sector.

10. Property, plant and equipment

	Land and buildings £m	Yachts and motor boats £m	Aircraft and equipment £m	Computer equipment £m	Other equipment £m	Total £m
Cost						
At 1 January 2007	190.0	–	878.8	77.7	299.7	1,446.2
Exchange adjustments	5.3	2.1	28.3	1.8	6.1	43.6
Acquisitions through business combinations	90.6	160.3	91.4	77.8	59.0	479.1
Transfer from ultimate parent company	–	–	624.8	–	–	624.8
Additions	5.9	2.5	25.1	7.1	19.3	59.9
Disposals	(7.2)	(0.3)	–	(7.9)	(16.0)	(31.4)
Transferred to assets held for sale	(8.0)	(0.9)	(67.0)	(1.9)	(4.2)	(82.0)
At 30 September 2007	276.6	163.7	1,581.4	154.6	363.9	2,540.2
Exchange adjustments	21.5	9.7	106.5	5.3	33.1	176.1
Acquisitions through business combinations	15.2	–	–	0.8	7.8	23.8
Additions	31.2	10.0	45.1	15.2	50.7	152.2
Disposals	(15.7)	(8.6)	(749.3)	(3.8)	(28.4)	(805.8)
Transferred to assets held for sale	–	(5.1)	(102.6)	–	(15.9)	(123.6)
At 30 September 2008	328.8	169.7	881.1	172.1	411.2	1,962.9
Depreciation and impairment						
At 1 January 2007	(99.5)	–	(401.0)	(58.0)	(187.6)	(746.1)
Exchange adjustments	(3.3)	–	(5.2)	(1.4)	(4.0)	(13.9)
Acquisitions through business combinations	(38.8)	(39.9)	(43.5)	(54.6)	(34.5)	(211.3)
Transfer from ultimate parent company	–	–	(211.3)	–	–	(211.3)
Provided in the period	(8.1)	(0.9)	(65.0)	(7.4)	(20.5)	(101.9)
Disposals	7.2	0.3	–	7.6	12.3	27.4
Transferred to assets held for sale	2.9	–	27.9	1.5	2.1	34.4
At 30 September 2007	(139.6)	(40.5)	(698.1)	(112.3)	(232.2)	(1,222.7)
Exchange adjustments	(12.0)	(2.3)	(19.7)	(9.8)	(13.8)	(57.6)
Acquisitions through business combinations	(10.9)	–	0.3	(0.5)	(2.8)	(13.9)
Provided in the year	(16.0)	(8.1)	(119.1)	(17.6)	(45.6)	(206.4)
Disposals	8.4	3.5	396.3	3.7	20.2	432.1
Impairments	–	(1.2)	(23.5)	–	(7.0)	(31.7)
Transferred to assets held for sale	–	2.4	48.0	–	13.1	63.5
At 30 September 2008	(170.1)	(46.2)	(415.8)	(136.5)	(268.1)	(1,036.7)
Net book value						
At 1 January 2007	90.5	–	477.8	19.7	112.1	700.1
At 30 September 2007	137.0	123.2	883.3	42.3	131.7	1,317.5
At 30 September 2008	158.7	123.5	465.3	35.6	143.1	926.2

Impairment charges

Impairment charges in the year ended 30 September 2008 relate to aircraft (£23.5m), yachts and motor boats (£1.2m) and other assets (£7.0m). These impairments have been calculated following the reclassification of the related assets as held for sale (Note 18). The disposal of owned aircraft forms part of the integration of the aircraft fleet post business combination and the sale and leaseback transaction described below. The impairment charges have been calculated based on the fair value of the assets less costs to sell. In respect of aircraft, external market values have been used in assessing fair values. Other assets have been impaired based on their estimated net disposal proceeds. The impairment charge is disclosed within cost of sales and as a separately disclosed item (Note 3). Segmental analysis of the impairment charge is presented in Note 2.

Sale and leaseback transactions

During the year ended 30 September 2008, the Group sold and leased back 24 aircraft on operating leases as part of its aircraft fleet strategy. Of these aircraft, 20 were previously owned and held within Plant, Property and Equipment and the sale was accounted for as a disposal. The remaining 4 aircraft were purchased, sold and leased back within the year. The loss on sale and leasebacks was £101.7m including the recognition of opening maintenance provision (9-month period ended 30 September 2007: profit of £14.7m) which is included within cost of sales and also within separately disclosed items (Note 3). Future commitments in respect of aircraft fleet operating leases are disclosed in Note 27.

Notes to the consolidated financial statements

continued

Changes in estimates

During the year ended 30 September 2008, the Group reviewed the residual value of its remaining owned aircraft and the estimated useful economic lives of these aircraft. As a result the expected residual values of certain assets have been revised downwards. The effect of these changes on depreciation expense, recognised in cost of sales, in the year and in future years is an increase in the annual charge of £5.2m.

Other disclosures

Other property, plant and equipment with a combined net book value as at 30 September 2008 of £143.1m (2007: £131.7m) includes £95.3m (2007: £106.2m) of fixtures and fittings and £26.5m (2007: £17.5m) of motor vehicles.

Land and buildings comprise freehold and short leasehold properties with net book values of £98.1m (2007: £75.8m) and £60.6m (2007: £61.2m) respectively.

The net book value of assets held under finance leases and hire purchase contracts at 30 September 2008 was £193.2m (2007: £198.5m).

The net book value of property, plant and equipment with restrictions on title, being pledged as security for bank loans, amounted to £39.0m (2007: £46.3m).

11. Investment in joint ventures, associates and other investments

The Group's equity investment in its joint ventures and associates is recorded in the financial statements as follows:

	Share of net assets of joint ventures £m	Share of net assets of associates £m	Total share of net assets £m
Cost			
At 1 October 2007	64.2	11.8	76.0
Share of profits/(losses) before tax for the year	15.0	(0.2)	14.8
Share of tax charge	(2.8)	–	(2.8)
Increase in investment	9.5	–	9.5
Dividends paid	(7.6)	(1.8)	(9.4)
Exchange adjustments	6.4	1.7	8.1
At 30 September 2008	84.7	11.5	96.2
Goodwill			
At 1 October 2007	12.6	3.9	16.5
Exchange adjustments	1.1	0.6	1.7
At 30 September 2008	13.7	4.5	18.2
Net book value			
At 1 October 2007	76.8	15.7	92.5
At 30 September 2008	98.4	16.0	114.4

The Group's share of joint venture and associate profit after tax was £12.0m (9-month period ended 30 September 2007: £6.9m). The increase in investment in share of net assets of joint ventures of £9.5m arose from the joint venture parties injecting new capital into Atlantica Hellas SA with no change to the proportion of the entity held by any party.

The principal joint ventures and associates and the proportion held are shown below:

Name of company	Proportion held	Nature of business	Country of registration/ incorporation
Joint ventures			
Travco Group Holding SAE	50.0%	Incoming agency	Egypt
Sunshine Cruises Limited	50.0%	Cruise operator	England and Wales
Le Passage to India Tours and Travel Pvt Ltd	50.0%	Incoming agency	India
Atlantica Hellas SA	50.0%	Hotel operator	Greece
Atlantica Hotels and Resorts Ltd	50.0%	Hotel operator	Cyprus
Associates			
Turismo Asia Company Limited	49.0%	Incoming agency	Thailand

As disclosed in Note 34, subsequent to 30 September 2008, the Group acquired the remaining 50% stake in Sunshine Cruises Limited for consideration of £29.4m on 4 October 2008 and will consolidate the company from this date.

A summary of the results for the year ended 30 September 2008 and of the assets and liabilities at this date of the Group's joint ventures and associates is shown below:

100% values	Joint ventures £m	Associates £m	Total £m
Revenue	488.0	340.4	828.4
Operating profit	32.3	3.1	35.4
Net interest (payable)/receivable	(2.3)	0.2	(2.1)
Profit before taxation	30.0	3.3	33.3
Taxation	(5.6)	(2.8)	(8.4)
Profit after taxation for the year	24.4	0.5	24.9
Non-current assets	183.4	12.1	195.5
Current assets	168.4	41.3	209.7
Non-current liabilities	(151.9)	(20.9)	(172.8)
Current liabilities	(30.5)	(16.4)	(46.9)
Net assets	169.4	16.1	185.5

Other investments

Other investments comprise trade investments and non-consolidated entities.

Trade investments represent the Group's 14.3% shareholding in The Airline Group Limited, which in turn has a 42% shareholding in National Air Traffic Services Limited, and a 10% holding in the Atlantica Leisure Group. No material change in the fair value of these investments has been recorded in the year.

Non-consolidated entities are recorded at cost and reflect the Group's net investment held in 100 subsidiaries which, due to the immaterial size of their revenues, result and financial position, have not been consolidated. Balances between these entities and consolidated subsidiaries have not been eliminated.

	Trade investments £m	Non- consolidated entities £m	Total £m
At 1 October 2007	22.9	30.1	53.0
Foreign exchange movements	–	2.8	2.8
At 30 September 2008	22.9	32.9	55.8

Notes to the consolidated financial statements
continued**12. Investments****Acquisitions****(a) Acquisitions in the year ended 30 September 2008**

Acquisitions were made in the year for a total of £108.6m, including £1.4m of acquisition expenses. These acquisitions gave rise to provisional goodwill of £81.5m. The acquired businesses and their acquisition dates were:

Business	Description	Date	Country
Mainstream Sector – Western Europe			
Société Polynésienne Promotion Hotelière (SPPH)	Hotel operator	July 2008	French Polynesia
Specialist & Emerging Markets Sector			
National Events Inc.	Tour operator	November 2007	USA
Travelmood Limited	Long-haul travel	June 2008	UK
Activity Sector			
CHS Tour Services Limited	Tour operator	December 2007	UK
Australian Pinnacle Tours Pty Limited	Tour operator	December 2007	Australia
Active Safari Pty Limited (Planet Perth)	Tour operator	January 2008	Australia
Gullivers Sport Travel Limited	Tour operator	February 2008	UK
Your Sporting Challenge Limited	Tour operator	March 2008	UK
Real Travel Limited	Tour operator	April 2008	UK
World Challenge Holdings Limited	Tour operator	April 2008	UK
Sportsworld Holdings Limited	Tour operator	May 2008	UK
FanFirm Pty Limited	Tour operator	August 2008	Australia
Events International Limited	Tour operator	September 2008	UK
Online Destination Services Sector			
Cruiseline II Limited	Cruise services	November 2007	USA
Destination Florida – New England, Inc.	Cruise services	January 2008	USA
Hotels London Limited	Online hotel accommodation	September 2008	UK

The Group acquired 100% of the voting equity instruments in respect of each acquisition completed during the year with the exception of SPPH, where the Group previously held 50% and acquired all the remaining shares in the year.

The relative size of the acquisitions made is set out in the table below:

Consideration £m	Number of acquisitions Number	Total Consideration £m	Total Goodwill £m
0 – 5	10	23.3	18.3
10 – 15	4	49.9	29.4
>15	2	35.4	33.8
Total	16	108.6	81.5

The total net assets/(liabilities) acquired are set out below:

Net assets/(liabilities) acquired	Note	Book value prior to acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Fair value of net assets/ (liabilities) acquired £m
Intangible fixed assets	1	5.4	–	57.0	62.4
Tangible fixed assets	2	10.5	–	(0.6)	9.9
Current assets (excluding cash)	3	32.7	(1.0)	(0.7)	31.0
Cash		23.0	–	–	23.0
Current liabilities (excluding debt)	4	(53.6)	(11.2)	(0.8)	(65.6)
Deferred tax provision	5	–	–	(17.8)	(17.8)
Other non-current liabilities (excluding debt)		(0.2)	–	–	(0.2)
Interest-bearing liabilities		(15.6)	–	–	(15.6)
Total		2.2	(12.2)	37.1	27.1
Total consideration					108.6
Net assets acquired (as above)					(27.1)
Provisional goodwill arising					81.5

All acquisitions have been accounted for using the purchase method, as required by IFRS 3. It should be noted that certain fair value adjustments and the value of contingent consideration have necessarily been prepared on a provisional basis due to the recent timing of certain acquisitions and the periods over which contingent consideration may become payable. Experience may result in revisions to fair values in the subsequent accounting period.

Notes:

Accounting policy and fair value adjustments arise from:

1. Elimination of goodwill existing in balance sheets at acquisition and inclusion of the fair value of IFRS 3 business combination intangible assets principally comprising brands and customer relationships (Note 9).
2. Revaluation of property plant and equipment.
3. Accounting policy alignment for revenue recognition; recognition of provisions against receivables.
4. Accounting policy alignment for revenue recognition in respect of World Challenge Holdings Limited's trading subsidiaries, Gullivers Sport Travel Limited and Sportsworld Group Limited; recognition of provisions for other liabilities.
5. Recognition of deferred taxation liabilities relating to other adjustments, including intangible assets recognised.

The consideration payable is made up of:

	£m
Cash	74.3
Deferred consideration	5.9
Contingent consideration	24.3
Loan notes issued	2.7
	107.2
Expenses	1.4
Total consideration	108.6

Notes to the consolidated financial statements
continued**(b) Cash flows arising in respect of acquisitions**

Total cash flows relating to acquisitions in the year, including amounts paid in respect of deferred and contingent consideration arising on prior period acquisitions are as follows:

	2008 Maximum £m	2008 Paid £m
Acquisitions in the year	74.3	74.3
Deferred and contingent consideration arising and loan notes issued	53.6	0.6
	127.9	74.9
Acquisition expenses paid in the year	1.4	1.4
Total consideration	129.3	76.3
Cash acquired with acquisitions		(23.0)
Cash paid relating to purchase of minority interest		19.8
Cash paid relating to prior period acquisitions and redemption of acquisition loan notes		37.0
Net cash outflow in the year relating to acquisitions		110.1

Maximum consideration payable represents the maximum consideration that the Group would be obliged to pay if all contingent consideration were to become payable.

Movements in deferred and contingent consideration in the year were as follows:

	Deferred consideration £m	Contingent consideration £m	Loan notes £m	Total £m
At 1 October 2007	27.3	21.3	28.3	76.9
Recognised in the year relating to current year acquisitions	5.9	24.3	2.7	32.9
Adjustments to amounts recognised in respect of prior period acquisitions	2.6	(0.5)	(2.1)	–
Cash paid	(10.2)	(5.9)	(21.5)	(37.6)
Exchange differences	3.0	1.0	1.1	5.1
At 30 September 2008	28.6	40.2	8.5	77.3

Further details of deferred and contingent consideration payable in less than one year and after more than one year is given in Notes 20 and 22 respectively.

The contingent consideration payable arising in the year is in respect of the acquisitions listed below. It is dependent on the results of the businesses over the following periods or the balance of working capital at the acquisition date, and the Directors believe the amounts provided reflect the most likely outcome in each case:

Acquisition	Basis of calculation of contingent consideration	Period for calculation of contingent consideration	Maximum contingent consideration
National Events Inc.	Earnings	Up to 31 Dec 2010	USD 0.8m
Cruiselink II Limited	Earnings	Up to 31 Dec 2010	USD 2.5m
Gullivers Sport Travel Limited	Earnings	Up to 30 Sep 2012	GBP 4.0m
Real Travel Limited	Earnings	Up to 31 Dec 2009	GBP 12.0m
World Challenge Holdings Limited	Earnings	Up to 30 Sep 2011	GBP 5.3m
Sportsworld Holdings Limited	Earnings	Up to 30 Sep 2012	GBP 13.5m
FanFirm Pty Limited	Earnings	Up to 31 Oct 2011	AUD 18.0m
Total contingent consideration recognised in these accounts			GBP 24.3m

(c) Acquisitions in the 9-month period ended 30 September 2007

(i) First Choice Holidays PLC

On 3 September 2007, the TUI Travel PLC Group was formed through a business combination of the tourism division of TUI AG with First Choice Holidays PLC. For accounting purposes, the tourism division of TUI AG was identified as the acquirer of TUI Travel PLC and First Choice Holidays PLC.

The determination of the assets and liabilities acquired was finalised within 12 months of the acquisition date in accordance with IFRS 3. The table below shows the finalised acquisition values. Residual goodwill will not be deductible for taxation:

	Note	Book value prior to acquisition £m	Accounting policy adjustments £m	Fair value adjustments £m	Fair value of net assets/ (liabilities) acquired £m
Intangible fixed assets	1	806.9	–	(152.8)	654.1
Tangible fixed assets	2	268.0	–	(0.6)	267.4
Investments		35.2	–	–	35.2
Current assets (excluding cash)	3	681.5	(4.3)	(3.7)	673.5
Cash		322.4	–	–	322.4
Trade and other payables	4	(1,226.8)	–	11.5	(1,215.3)
Provisions	5	(53.1)	–	(19.9)	(73.0)
Deferred tax provision	6	(23.1)	–	(152.8)	(175.9)
Interest-bearing liabilities		(559.9)	–	–	(559.9)
Total		251.1	(4.3)	(318.3)	(71.5)
Total consideration					1,556.3
Increase in fair value of pre-acquisition share-based payment					3.4
Net liabilities acquired					
Total net liabilities					71.5
Minority interest share of assets					0.9
Goodwill arising					1,632.1

The consideration for First Choice Holidays PLC was valued as the current market value of the shares acquired on the date of purchase, as listed on the London Stock Exchange, together with acquisition costs of £1.8m.

Accounting policy and fair value adjustments arise from:

1. Recognition of acquisition-related intangible assets, including brands, customer relationships, order backlogs and other assets.
Further information is set out in Note 9.
2. Revision to the carrying value of property, plant and equipment.
3. Adjustment to deferred income for agent commissions which are recognised as intra-group transactions post acquisition (on departure) and lease cost recognition alignment; fair value provision against receivables.
4. Fair value adjustment in respect of deferred income.
5. Fair value adjustment in respect of provisions for contingent and other liabilities.
6. Deferred taxation relating to the above items.

Provisional goodwill recognised at 30 September 2007 in respect of First Choice was £1,590.9m. This value was indicative due to the timing of the acquisition on 3 September 2007 and has been finalised during the year ended 30 September 2008.

Notes to the consolidated financial statements

continued

(ii) Other acquisitions in the comparative period

In addition to the acquisition of First Choice Holidays PLC, the Group also acquired 7 subsidiaries during the comparative period. Total consideration paid was £63.0m and residual goodwill in respect of these acquisitions was £48.3m.

(d) Residual goodwill

A consistent process is undertaken at each acquisition to identify the fair value of separable assets and liabilities acquired, including the fair value of intangible assets, being brands, order books, licences, customer relationships and other intangible assets. The residual goodwill on acquisition represents the value of assets and earnings that do not form separable assets under IFRS 3 but nevertheless are expected to contribute to the future results of the Group.

Residual goodwill in respect of current year acquisitions represents principally:

- Market knowledge of particular geographic areas.
- Knowledge of particular market segments, for example sports travel and volunteer/educational experiences.
- Involvement of existing management and employees and transfer of their knowledge of the operation of the business model.
- Integration synergies particularly within the Activity Sector.
- The ability to sell acquired product through existing channels and existing product through acquired channels, in Activity, ODS and Specialist.

In respect of the acquisition of First Choice, residual goodwill of £1,632.1m arose. Management consider that this amount principally represents:

- The present value of ongoing integration synergies specific to the acquirer. The latest forecast of ongoing post integration synergies for the combined group is £175m per annum (being the exit rate forecast from the end of the third year post business combination). Further details are set out on pages 28 to 29 of the Business and Financial Review. These are principally Mainstream Sector cost synergies, with a significant proportion arising in the UK airline and tour operations support functions.
- The engagement of former First Choice management in the combined TUI Travel Group, including Directors and senior management.
- The ability to sell acquired First Choice specialist product through TUI Travel's controlled distribution network in new markets (for example, selling TUI Marine product in Germany).

(e) Income statement

If the businesses that were acquired at various times during the year ended 30 September 2008 had been part of the Group since 1 October 2007, Group revenue and loss after tax would have been increased by £93.2m and £12.6m respectively including amortisation of business combination intangibles of £6.2m net of tax.

The acquired businesses contributed revenues of £92.2m and profit after tax (including amortisation of business combination intangibles) of £1.8m.

(f) Acquisitions post balance sheet date

Subsequent to 30 September 2008, the Group acquired the remaining 50% stake in Sunshine Cruises Limited for consideration of £29.4m on 4 October 2008 and will consolidate the company from this date. A further four smaller acquisitions were completed in October and November 2008 (Travel Adventures Inc, Teamlink Travel Ltd, Edwin Doran Travel Ltd and Master Yachting GmbH) for total consideration of £13.7m. The accounting under IFRS 3 for these recent acquisitions has not yet been finalised.

13. Non-current trade and other receivables

	30 September 2008 £m	30 September 2007 £m
Loans and advances to related parties	1.6	9.3
Other receivables	98.5	114.5
Prepayments	110.2	108.1
Total	210.3	231.9

14. Deferred tax assets and liabilities

	Assets 30 Sep 2008	Assets 30 Sep 2007	Liabilities 30 Sep 2008	Liabilities 30 Sep 2007	Net 30 Sep 2008	Net 30 Sep 2007
Intangible assets	3.2	4.5	(190.3)	(194.7)	(187.1)	(190.2)
Finance lease transactions	11.8	6.9	–	–	11.8	6.9
Property, plant and equipment	10.9	2.7	(13.7)	(34.8)	(2.8)	(32.1)
Receivables and other assets	4.0	0.5	(7.4)	(2.7)	(3.4)	(2.2)
Financial instruments and foreign exchange	27.1	47.6	(50.2)	(5.8)	(23.1)	41.8
Inventories	6.1	5.4	–	–	6.1	5.4
Interest-bearing loans and borrowings	5.7	4.0	(7.2)	(6.6)	(1.5)	(2.6)
Employee benefits	62.4	63.5	(4.3)	(4.5)	58.1	59.0
Other short-term temporary differences	57.8	61.7	(9.3)	(4.2)	48.5	57.5
Tax value of losses carried forward	63.8	40.5	–	–	63.8	40.5
Total	252.8	237.3	(282.4)	(253.3)	(29.6)	(16.0)
Set off of deferred tax within the same jurisdiction	(47.6)	(69.5)	47.6	69.5	–	–
Net tax liabilities	205.2	167.8	(234.8)	(183.8)	(29.6)	(16.0)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (reported at the applicable tax rate):

	30 September 2008 £m	30 September 2007 £m
Capital losses	2.5	2.7
Other losses	142.4	97.4
Total losses	144.9	100.1

These assets have not been recognised principally because the Directors are not certain of the timing of any benefits that might arise in the future. These losses are not subject to time expiry and are available for utilisation against profits arising in future periods in the territories in which they have arisen. There are no other unprovided deferred tax liabilities nor unrecognised deferred tax assets.

Movements in temporary differences during the current year:

	Balance at 1 October 2007 £m	Arising on acquisition £m	Recognised/ (charged) in income £m	Recognised/ (charged) in equity £m	Foreign exchange retranslation £m	Balance at 30 September 2008 £m
Intangible assets	(190.2)	(17.8)	21.8	–	(0.9)	(187.1)
Finance lease transactions	6.9	–	3.4	–	1.5	11.8
Property, plant and equipment	(32.1)	–	32.0	(0.3)	(2.4)	(2.8)
Receivables and other assets	(2.2)	–	(1.1)	0.3	(0.4)	(3.4)
Financial instruments and foreign exchange	41.8	–	(4.3)	(58.4)	(2.2)	(23.1)
Inventories	5.4	–	(0.1)	–	0.8	6.1
Interest-bearing loans and borrowings	(2.6)	–	1.4	–	(0.3)	(1.5)
Employee benefits	59.0	–	(3.6)	(4.2)	6.9	58.1
Other short-term temporary differences	57.5	–	(11.9)	–	2.9	48.5
Tax value of losses carried forward	40.5	–	16.9	–	6.4	63.8
Total	(16.0)	(17.8)	54.5	(62.6)	12.3	(29.6)

Notes to the consolidated financial statements
continued

Movements in temporary differences during the prior period are analysed as follows:

	Balance at 1 January 2007 £m	Arising on acquisition £m	Recognised/ (charged) in Income £m	Recognised/ (charged) in equity £m	Foreign exchange retranslation £m	Balance at 30 September 2007 £m
Intangible assets	4.1	(195.2)	0.7	–	0.2	(190.2)
Finance lease transactions	7.3	–	(0.6)	–	0.2	6.9
Property, plant and equipment	(29.1)	(8.0)	6.3	(0.2)	(1.1)	(32.1)
Receivables and other assets	2.7	–	(4.9)	–	–	(2.2)
Financial instruments and foreign exchange	35.8	11.9	(4.7)	(2.4)	1.2	41.8
Inventories	3.4	–	1.9	–	0.1	5.4
Interest-bearing loans and borrowings	(1.5)	–	(1.0)	–	(0.1)	(2.6)
Employee benefits	89.5	6.3	(11.5)	(28.1)	2.8	59.0
Other short-term temporary differences	35.4	34.0	(13.5)	–	1.6	57.5
Tax value of losses carried forward	45.2	1.3	(7.2)	–	1.2	40.5
Total	192.8	(149.7)	(34.5)	(30.7)	6.1	(16.0)

Intangible asset temporary differences arise in respect of assets recognised on acquisition, principally in respect of the acquisition of First Choice. Property, plant and equipment temporary differences principally relate to tax depreciation in the UK, France and Germany. Employee benefits temporary differences arise in respect of defined benefit pension scheme liabilities and future deductions available on the vesting of employee awards. Financial instruments and foreign exchange temporary differences arise in respect of financial instruments accounted for under IAS 39 and principally reflect the fair value at 30 September 2008 of cash flow hedging derivatives that will be settled against future transactions. Other short-term temporary differences relate to operating expenses and related accruals and provisions for which a tax deduction has not yet been recognised.

15. Inventories

	30 September 2008 £m	30 September 2007 £m
Marine inventories	16.3	12.8
Airline spares and operating equipment	19.9	15.3
Other operating inventories	15.0	11.6
Total	51.2	39.7

No inventory amounts are expected to be recovered after more than 12 months.

The write-down of inventories to net realisable value amounted to £0.5m (9-month period ended 30 September 2007: £nil).

The write-down is included within underlying operating profit in cost of sales.

16. Trade and other receivables

	30 September 2008 £m	30 September 2007 £m
Trade debtors	629.6	468.6
Amounts owed by related parties	133.5	184.1
Other debtors	340.6	245.4
Prepayments	549.8	479.8
Total	1,653.5	1,377.9

17. Cash and cash equivalents

	30 September 2008 £m	30 September 2007 £m
Cash	11.9	298.9
Short-term liquid assets	396.3	522.3
Deposits	721.6	1,137.5
Cash and cash equivalents	1,129.8	1,958.7

Cash and cash equivalents includes £45.9m (2007: £54.7m) that is not available for immediate use by the Group. This represents monies held to meet regulatory requirements. Other investments disclosed on the balance sheet comprise cash balances held on a restricted basis by the Group's captive insurance funds as part of ongoing operations.

18. Assets classified as held for sale

	30 September 2008 £m	30 September 2007 £m
Yachts and motor boats	2.7	0.9
Land and buildings	1.4	5.1
Aircraft	125.8	39.1
Disposal groups – assets	24.1	40.4
Other	2.8	2.5
Total assets classified as held for sale	156.8	88.0
Disposal groups – liabilities	(22.4)	(18.8)
Net assets classified as held for sale	134.4	69.2

The disposal group assets and liabilities held for sale included Société d'Investissement Aérien S.A. (Jet4You) at 30 September 2008 and Budget Travel Limited at 30 September 2007.

Aircraft held for sale relate to the Northern Europe and Central Europe Mainstream segments. Jet4You is included within the Western Europe segment. Budget Travel Limited was included within the Northern Europe segment at 30 September 2007. Assets held for sale are expected to be sold within 12 months. As described in Note 34, one aircraft has been sold and leased back under an operating lease subsequent to the year end.

In the year ended 30 September 2008 an impairment charge of £31.7m (9-month period ended 30 September 2007: £22.9m) has been taken to record these plant, property and equipment assets at the lower of their carrying value and fair value less costs to sell. The impairment charge is included within separately disclosed restructuring and aircraft items (Note 3). Further details are included in Note 10.

19. Interest-bearing loans and borrowings

	30 September 2008 £m	30 September 2007 £m
Current liabilities		
Bank loans and overdrafts	31.5	72.1
Loan notes	2.7	12.0
Finance leases (and hire purchase contracts)	20.4	34.5
Other financial liabilities	44.7	33.4
Total	99.3	152.0

Other financial liabilities comprise the fair value of a put option written by the Group to a minority interest shareholder in LTUR Tourismus AG (LTUR) that may require the Group to purchase the minority shareholding. At 30 September 2008, the Group controlled a 51% shareholding in LTUR and the put option was exercisable at any point until 2012. Subsequent to the year end it has been agreed that the put option will be exercised by the minority shareholder over 19% of his shareholding. The put option over the remaining shares has been extended and may be exercised at any time until 2015. Fair value changes in the put option liability are included within financial expenses or financial income.

	30 September 2008 £m	30 September 2007 £m
Non-current liabilities		
Amounts owed to related parties	840.0	1,400.0
Bank loans	154.3	480.6
Loan notes	5.8	16.3
Finance leases (and hire purchase contracts)	167.0	143.5
Other financial liabilities	–	3.7
Total	1,167.1	2,044.1

The bank loans and loan notes are repayable:

	30 September 2008 £m	30 September 2007 £m
Within one year	34.2	84.1
Between one and five years	155.7	484.4
After five years	4.4	12.5
Total	194.3	581.0

Notes to the consolidated financial statements
continued

Certain loans are secured on the underlying assets of the company in whose name the borrowings are made. At 30 September 2008 and 30 September 2007 the related party loans were all repayable within one to five years.

Finance lease liabilities relate primarily to the leasing of aircraft and boats. Group obligations under finance leases and hire purchase contracts are payable as follows:

	Principal £m	Interest £m	Minimum lease payments 30 September 2008 £m	Principal £m	Interest £m	Minimum lease payments 30 September 2007 £m
In respect of aircraft, yachts and equipment payable within:						
One year	20.4	9.0	29.4	34.5	8.7	43.2
One to five years	158.5	14.3	172.8	130.9	19.6	150.5
After five years	8.5	0.3	8.8	12.6	0.7	13.3
Total	187.4	23.6	211.0	178.0	29.0	207.0

20. Current trade and other payables

	30 September 2008 £m	30 September 2007 £m
Trade creditors	1,141.9	1,138.5
Deferred and contingent consideration (Note 12(b))	19.6	15.7
Other creditors	233.3	79.8
Amounts owed to related parties	77.4	127.3
Other taxes and social security costs	57.4	74.6
Accruals and deferred income	1,032.9	865.9
Client money received in advance	1,494.0	1,252.7
Preference share capital	–	0.1
Total	4,056.5	3,554.6

21. Provisions for liabilities and charges

	Aircraft maintenance £m	Restructuring £m	Other £m	Total £m
At 1 October 2007	161.9	23.1	144.1	329.1
Provided in the year	161.2	48.3	90.4	299.9
Released in the year	(0.6)	(2.9)	(13.0)	(16.5)
Unwinding of discounted amount	4.0	–	–	4.0
Costs incurred	(131.8)	(24.9)	(69.0)	(225.7)
Exchange movements	9.6	2.2	12.6	24.4
At 30 September 2008	204.3	45.8	165.1	415.2
Analysed as:				
Non-current	154.3	1.2	24.8	180.3
Current	50.0	44.6	140.3	234.9
At 30 September 2008	204.3	45.8	165.1	415.2

Aircraft maintenance

In respect of aircraft, provision is made for maintenance, overhaul and repair costs of operating leased airframes, engines and certain other components based on total anticipated costs over the useful economic life of the asset calculated by reference to costs experienced and published manufacturers' data. The charge to the income statement is calculated by reference to the number of hours and cycles flown and by reference to the length of the full overhaul cycle. Costs incurred are charged against the provision. Neither the timing nor the value of the expenditure can be precisely determined but they can be averaged over time and over a fleet.

The cost of major overhauls of owned airframes and engines is capitalised and depreciated over the period until the next scheduled major overhaul.

Restructuring

Restructuring relates to provisions arising as a result of reorganisation and restructuring plans that are irrevocably committed and includes severance payments. Further details of restructuring projects in the current year are set out in Note 3. Provisions are forecast to be utilised within 12 months of the balance sheet date.

Other

Other provisions relate to onerous lease contracts that have been entered into in the ordinary course of business, litigation (including provisions for contingent liabilities recorded on acquisition of First Choice) and other future obligations, the amount or timing of which is uncertain. The majority of the provision is anticipated to be utilised within 12 months of the balance sheet date, although the timing and payments related to individual litigation claims is estimated and is inherently uncertain.

22. Non-current trade and other payables

	30 September 2008 £m	30 September 2007 £m
Trade creditors	0.8	–
Deferred and contingent consideration (Note 12(b))	49.2	32.9
Other creditors	5.4	26.0
Amounts owed to related parties	0.1	–
Accruals and deferred income	92.8	127.2
Total	148.3	186.1

23. Share capital

	30 September 2008 £m	30 September 2007 £m
Authorised		
1,999,500,020 (2007: 1,999,500,020) ordinary shares of 10p each	199.9	199.9
49,998 (2007: 49,998) redeemable preference shares of £1 each	0.1	0.1
Total	200.0	200.0
Allotted, called up and fully paid		
1,118,010,670 (2007: 1,118,010,670) ordinary shares of 10p each	111.8	111.8
Nil (2007: 49,998) redeemable preference shares of £1 each	–	0.1
Amounts recorded within creditors falling due in less than one year	–	(0.1)
Total	111.8	111.8

The Company was incorporated on 29 January 2007 with an initial share capital of 2 ordinary shares of £1 each. These were issued to TUI AG and a nominee of First Choice Holidays PLC and fully paid.

On 19 June 2007 the authorised share capital was divided into 50,002 ordinary shares of £1 each and 49,998 redeemable preference shares of £1 each. The redeemable preference shares were issued at par to TUI AG and fully paid.

On 28 June 2007 the authorised share capital was increased to £200m divided into 1,999,500,020 ordinary shares of 10p each and 49,998 redeemable preference shares of £1 each. At this time the 2 ordinary shares of £1 each were converted to 20 ordinary shares of 10p each.

On 3 September 2007 a total of 547,825,228 ordinary shares of 10p each were allotted to the shareholders of First Choice Holidays PLC on a share for share exchange basis, 570,185,422 ordinary shares of 10p each were allotted to TUI AG and 10 ordinary shares of 10p each were transferred to TUI AG from the First Choice Holidays PLC's nominee. This resulted in an issued and fully paid share capital of 1,118,010,670 ordinary shares of 10p each.

On 18 March 2008 the 49,998 redeemable preference shares of £1 each held by TUI AG were redeemed in full. These were not redeemed automatically upon admission to the Official List of the London Stock Exchange (pursuant to right (iv) below) since there were insufficient distributable reserves at that time.

Notes to the consolidated financial statements
continued**Redeemable preference shares**

The following is a summary of the rights and provisions in the Articles relating to the non-voting, non-dividend bearing Redeemable Preference Shares which were classified as liabilities within creditors falling due in less than one year on the balance sheet at 30 September 2007:

- (i) Income: the holders of the Redeemable Preference Shares shall not be entitled to receive a dividend;
- (ii) Capital: on a return of capital £1 per share;
- (iii) Voting: no right to vote at any general meeting of the Company unless (a) the meeting is to consider any resolution approving the purchase by the Company of its own shares, a reduction in the capital of, or the winding up of the Company, or (b) the meeting is to consider any resolution which abrogates or varies the rights attaching to the Redeemable Preference Shares;
- (iv) Redemption: subject to the provisions of the Companies Acts, the Redeemable Preference Shares shall be redeemed automatically upon Admission.

24. Capital and reserves

	Share capital £m	Share premium £m	Capital reserve £m	Merger reserve £m	Revaluation reserve £m	Translation reserve £m	Hedging reserve £m	Retained (deficit)/ earnings £m	Equity holders of parent £m	Minority interest £m	Total £m
At 1 January 2007	276.3	1,273.6	–	–	–	–	(82.7)	(57.7)	1,409.5	6.9	1,416.4
Total recognised income/(expense) for the period	–	–	–	–	–	45.0	(0.4)	154.1	198.7	2.7	201.4
Share-based payment	–	–	–	–	–	–	–	0.3	0.3	–	0.3
Acquisition of own shares	–	–	–	–	–	–	–	(12.8)	(12.8)	–	(12.8)
Issue of preference shares	0.1	–	–	–	–	–	–	–	0.1	–	0.1
Reclassify preference shares to liabilities	(0.1)	–	–	–	–	–	–	–	(0.1)	–	(0.1)
Share issue expenses	–	–	–	(23.3)	–	–	–	–	(23.3)	–	(23.3)
Reclassification to TUI Travel PLC	(219.3)	(1,273.6)	–	993.2	–	–	–	–	(499.7)	–	(499.7)
Pre-merger dividends	–	–	–	–	–	–	–	23.4	23.4	–	23.4
Acquisition of First Choice Holidays PLC	54.8	–	–	1,520.1	–	–	(23.4)	3.4	1,554.9	0.9	1,555.8
Acquisition in stages	–	–	–	–	0.2	–	–	–	0.2	0.1	0.3
Dividends	–	–	–	–	–	–	–	(13.2)	(13.2)	(2.0)	(15.2)
Acquisition of minority interest	–	–	–	–	–	–	–	(14.6)	(14.6)	(1.2)	(15.8)
At 30 September 2007	111.8	–	–	2,490.0	0.2	45.0	(106.5)	82.9	2,623.4	7.4	2,630.8
Total recognised income/(expense) for the year	–	–	–	–	–	187.4	133.6	(270.5)	50.5	5.0	55.5
Share-based payment	–	–	–	–	–	–	–	13.5	13.5	–	13.5
Redemption of shares	–	–	0.1	–	–	–	–	(0.1)	–	–	–
Acquisition of own shares	–	–	–	–	–	–	–	(7.1)	(7.1)	–	(7.1)
Dividends	–	–	–	–	–	–	–	(65.4)	(65.4)	(4.5)	(69.9)
Acquisition in stages	–	–	–	–	–	–	–	(7.6)	(7.6)	–	(7.6)
Acquisition of minority interest	–	–	–	–	–	–	–	(16.3)	(16.3)	(2.5)	(18.8)
At 30 September 2008	111.8	–	0.1	2,490.0	0.2	232.4	27.1	(270.6)	2,591.0	5.4	2,596.4

Merger reserve

The merger reserve arose on the business combination of TUI Travel PLC (TUI Travel), First Choice Holidays PLC (First Choice) and the Tourism Division of TUI AG on 3 September 2007. The merger reserve arising from the acquisition of First Choice represents the excess of the fair value of the shares issued as consideration for the acquisition over the nominal value of the shares issued. The merger reserve arising from the reclassification to TUI Travel represents the difference between the nominal value of the share capital and share premium of the combined businesses in the Tourism division of TUI AG and the nominal value of the shares issued in TUI Travel. The merger reserve has also been charged with the costs of issuing the shares in TUI Travel and with the cash payment comprising a distribution of the difference between the net debt position of TUI Tourism at the date of the business combination and the target net debt as set out in the Prospectus dated 29 June 2007. The merger reserve is non-distributable.

Acquisition of minority interest

During the year ended 30 September 2008, the Group acquired the minority interest shareholding in respect of a number of group subsidiaries. The principal acquisition was in respect of the minority interest shareholdings in TUI Österreich GmbH and TUI Österreich GmbH and Co KG.

Acquisition in stages

Equity adjustments in the year ended 30 September 2008 relating to acquisitions in stages are for the Group's acquisition of the remaining 50% shareholding in Société Polynésienne Promotion Hotelière, a hotel operator within the Western Europe Mainstream sector and the remaining 60% shareholding of Jet4You, a Moroccan airline. Both were previously equity accounted entities for which a share of net liabilities had not been recognised under IAS 28 and IAS 31.

Acquisition of own shares

During the year the Group purchased own shares for £7.1m (9-month period ended 30 September 2007: £12.8m) which has been debited to equity. The number of shares held by the Group's Employee Benefit Trust (EBT) at 30 September 2008 and at 30 September 2007 is disclosed in the Remuneration Report on page 59. The associated cash outflow is presented as an operating cash flow as the Group anticipates an annual level of own share purchases as part of its employee remuneration policy.

Other reserves

Exchange gains or losses arising on the translation to the Group's reporting currency are recorded in the translation reserve. Gains or losses arising on cash flow hedges are initially recorded in the hedging reserve and are recycled to the income statement in accordance with the accounting policy in Note 1. The capital reserve is non-distributable.

25. Financial instruments

(a) Treasury risk overview

The Group is exposed to a variety of financial risks:

- Market risk (in respect of foreign currency rate risk, fuel price risk and interest rate risk).
- Liquidity risk (in respect of the Group's ability to meet its liabilities).
- Credit risk (in respect of recovery of amounts owing to the Group).

The Group's key financial market risks are in relation to foreign currency rates and jet fuel price. Currency risk results from the substantial cross-border element of the Group's trading, and arises on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of individual Group businesses. The risk is managed by the use of foreign exchange forward, swap and option contracts. The Group's exposure to jet fuel prices results from the aircraft fleet operations and is managed using commodity swaps and options.

The Group is exposed to interest rate risk that arises principally from the Group's floating rate aircraft leases, and floating rate bank loans and cash balances. Certain finance leases and loans have fixed interest rates.

Credit risk and liquidity risk are considered in Notes 25(d) and 25(f) respectively.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and to ensure that the Group has adequate policies, procedures and controls to successfully manage the financial risks that it faces. These form part of the Group's overall Risk Management Framework.

Incorporated within the framework's terms of reference are the determination of all treasury policies and the monitoring of the effectiveness of those policies. Group Treasury implements the agreed policies on a day-to-day basis. The procedures also stipulate the levels of authority applied to dealing and to approving the types of hedging financial instrument used to manage these exposures. Transactions are only undertaken to hedge underlying exposures. Financial instruments are not traded, nor are speculative positions taken.

The Treasury position of the Group, including liquidity, foreign exchange and fuel hedging exposure, is managed centrally in accordance with policies appropriate to cover specific risks faced by each business unit, and is the responsibility of the Group Finance Director and Group Treasurer. Group Treasury conducts regular reviews of financial risks with business unit management teams. Reports and forecasts are submitted monthly to the Group Management Board and to each PLC Board meeting.

In line with its established policy, the Group has monitored throughout the year its counterparty exposure with individual financial institutions. Such counterparty risk can arise by way of cash deposited or derivative instruments traded.

Notes to the consolidated financial statements

continued

(b) Currency risk management

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of individual Group businesses (which are principally Sterling, Euro, US Dollar, Canadian Dollar and Swedish Kronor).

The Group publishes its consolidated financial statements in Sterling and as a result, it is also subject to foreign currency exchange translation risk in respect of the translation of the results and underlying net assets of its foreign operations into Sterling.

The Group hedges its foreign currency exposures on a seasonal basis, that is, winter season and summer season with each season comprising a six-month period. At the start of a season the Group will have hedged substantially all of its foreign currency exposure (forecast sales and purchases and related assets and liabilities) for that season, using predominantly forward exchange contracts, most with a maturity of less than one year from the reporting date. When necessary, forward contracts are rolled over at maturity to match the payment date.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level principally by using forward contracts in respect of non-Sterling denominated airline maintenance provision balances, loan balances and deposits.

The following significant exchange rates to the Group's Sterling presentation currency (excluding the impact of hedged transactions) are illustrative of the rates applied during the current year and prior period:

£1 GBP equivalent	Average rate		Mid-spot rate	
	Year ended 30 September 2008	9-month period ended 30 September 2007	30 September 2008	30 September 2007
US Dollar	1.992	1.981	1.801	2.039
Euro	1.324	1.475	1.256	1.433
Canadian Dollar	1.991	2.188	1.885	2.026
Swedish Kronor	12.374	13.612	12.301	13.173

(c) Commodity risk

Fuel commodity risk arises from the Group's operation of aircraft in Europe.

The Group hedges its fuel commodity exposures on a seasonal basis, being the winter season and summer season with each season comprising a six-month period. At the start of a season the Group will have hedged substantially all of its fuel commodity exposure for that season, using predominantly forward exchange contracts, most with a maturity of less than one year from the reporting date. When necessary, forward contracts are rolled over at maturity to match the payment date.

During the current year, the Group has used option instruments in order to manage short-term volatility in respect of fuel hedging, whilst still continuing to apply the Group's documented hedging policies. The charge for option premiums is included within separately disclosed items (within cost of sales) as they relate to 2009 seasonal hedging and arose directly as a result of the exceptional level of fuel price volatility during 2008.

Details of fuel forward derivative instruments are set out in Note 25(i).

(d) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash balances (including bank deposits and cash and cash equivalents) and derivative financial instruments, as well as credit exposures to customers, including outstanding receivables, financial guarantees and committed transactions. Credit risk is managed separately for treasury and operating related credit exposures.

The Group minimises its financial credit risk through the application of risk management policies approved and monitored by the Board. While counterparties are limited to major banks and financial institutions, Group policy ensures that individual counterparty limits are adhered to and that there are no significant concentrations of credit risk. The Group monitors the credit ratings of its counterparties (where applicable) as part of its ongoing assessment of its credit exposure. Financial instruments are only transacted with major financial institutions with strong credit ratings of A1/P1 or better.

Loans and other receivables exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer. There is no concentration of credit risk with respect to trade and other receivables as the Group has a large number of internationally dispersed customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying value 30 September 2008 £m	Carrying value 30 September 2007 £m
Loans and receivables (due within one year)		
Trade receivables	629.6	468.6
Other debtors	474.1	429.5
Loans and receivables (due after more than one year)		
Other loans and advances	100.1	123.8
	1,203.8	1,021.9
Cash and cash equivalents	1,129.8	1,958.7
Derivatives – contracts used for hedging	321.0	44.0
Trade investments	22.9	22.9
Total	2,677.5	3,047.5

Loans and receivables exclude prepaid accommodation and other prepayments which do not meet the definition of a financial instrument. The maximum exposure to credit risk for total loans and receivables at the reporting date by geographic region was:

	30 September 2008 £m	30 September 2007 £m
United Kingdom	287.5	301.1
Germany	183.8	230.0
France	174.6	83.4
Other European countries	384.9	350.6
Rest of World	173.0	56.8
Total	1,203.8	1,021.9

The ageing of trade receivables at the reporting date was:

	30 September 2008 £m	30 September 2007 £m
Not overdue	1,015.7	942.4
Overdue 1 – 30 days	115.0	42.4
Overdue 31 – 90 days	53.6	34.6
Overdue 91 – 180 days	33.7	20.6
Overdue more than 180 days	21.5	17.3
	1,239.5	1,057.3
Provisions for bad and doubtful debts	(35.7)	(35.4)
Total	1,203.8	1,021.9

No material bad debt provision movements or changes have been recorded in the financial year. Based on past experience and the post balance sheet period to the date of these financial statements, the Group considers that the impairment allowance recorded is adequate. Within the impairment allowance there are no individually material amounts held. Trade receivables not overdue and not impaired include amounts due from travel agencies in respect of Mainstream, Specialist, Activity and Online Destination Services. Credit exposure to individual passengers booking holidays directly is limited by the Group's policy that full payment is required before the issue of tickets and holiday departure.

Cash, cash equivalents and other interest-bearing deposits principally comprise money market deposits and other short-term investments. The investments are with counterparties with a strong credit rating of at least A1/P1 or better. At 30 September 2008, approximately 48% (30 September 2007: 54%) of the Group's unrestricted cash and cash equivalents were invested with counterparties based in the United Kingdom.

In addition, the Group makes prepayments for hotel accommodation. Whilst such prepayments do not meet the definition of a financial asset under IAS 39, such prepayments give rise to a risk similar to credit risk due to the inherent risk of the Group not recovering the prepayment through full delivery of the related goods and services. Prepayments from time to time can concentrate risk with specific counterparties which are based overseas. The carrying amount of prepayments (which are presented within current and non-current assets) forms the maximum credit exposure, before taking into account any security or collateral held by the Group. Where appropriate, the Group obtains security collateral over the related accommodation property, to mitigate credit risk. At 30 September 2008, prepaid accommodation which is recoverable after more than one year was £88.8m (30 September 2007: £89.4m).

Notes to the consolidated financial statements
continued**(e) Interest rate risk**

The Group has exposure to interest rate risk arising principally on Sterling, US Dollar, and Euro floating interest rates that are attached to the Group's floating rate aircraft leases, and floating rate bank loans and cash balances.

The Group does not account for any fixed rate financial liabilities at fair value through profit and loss and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

An analysis of interest-bearing financial instruments (floating and fixed) and applicable interest rates as at 30 September 2008 is set out below. The Group's loans and borrowings are measured at amortised cost with the exception of put option liabilities which are carried at fair value:

Financial instrument	Currency	Nominal interest rate	Year of maturity	Face value and carrying amount 30 September 2008 £m	Face value and carrying amount 30 September 2007 £m
Shareholder loan	EUR	5.8%	2011	840.0	1,400.0
Secured bank loans	Sterling	5.4% - 9.1%	2010 - 2013	24.0	28.4
	EUR	5.4% - 6.8%	2009 - 2014	1.4	0.6
	USD	3.7%	2011	9.1	10.8
	Australian Dollar	N/A	N/A	-	0.7
Unsecured bank loans	Sterling	N/A	N/A	-	441.0
	USD	3.4%	2012	132.2	50.3
	EUR	4.6% - 7.0%	2012 - 2018	19.1	20.9
			185.8	552.7	
Finance leases	Sterling	6.6% - 7.0%	2008 - 2009	0.1	0.5
	EUR	4.3% - 7.0%	2008 - 2015	180.6	175.4
	USD	6.6%	2009 - 2011	4.7	2.1
	MAD	5.9% - 6.0%	2014 - 2015	2.0	-
			187.4	178.0	
Loan notes	Sterling	5.0% - 6.5%	2009 - 2011	2.1	16.8
	USD	5.0%	2008 - 2010	6.1	11.1
	CAD	5.0%	2009 - 2010	0.3	0.4
			8.5	28.3	
Put option liabilities	EUR	5.0%	Current	44.7	37.1
Total interest-bearing liabilities				1,266.4	2,196.1
Analysed between:					
Fixed rate instruments				208.3	217.6
Variable rate instruments				1,058.1	1,978.5
Total				1,266.4	2,196.1

The future commitment under the Group's floating rate aircraft operating leases at 30 September 2008 was £34.1m (30 September 2007: £50.0m).

(f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances.

The Group's liquidity peaks in July and August, during the European summer holiday season, with the liquidity low point being in December and January. To manage the liquidity position the Group is able to draw cash advances under its existing bank facilities which principally comprise two main sources of long-term debt funding, both of which have a number of years remaining before maturity:

- The shareholder loan from TUI AG of €1.0 billion which is fully drawn and matures in January 2011.
- The external bank revolving credit facility of £770m which is £223.9m drawn at 30 September 2008 and matures in August 2012.

The external bank revolving credit facility is used to manage the seasonality of the Group's cash flows and liquidity. Cash positions, liquidity and available facility headroom are monitored daily by the Group treasury department.

The Board remains satisfied with the Group's funding and liquidity position. Fixed charges cover and the ratio of net debt to EBITDA, which the Board believes to be the most useful measures of cash generation and gearing, as well as being the main basis for covenants in our credit facilities, were met at the year end. Fixed charges cover is defined as earnings before interest, tax, depreciation, amortisation and operating lease rentals charge (EBITDAR) divided by net interest plus operating lease rentals. EBITDA is defined as earnings before interest, tax, depreciation and amortisation.

The following are the undiscounted contractual cash flows of financial liabilities, including interest payments calculated using interest rates in force at each balance sheet date:

30 September 2008	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities						
Shareholder loan	840.0	998.1	52.7	52.7	892.7	–
Secured bank loans	34.5	42.4	8.1	7.0	15.5	11.8
Unsecured bank loans	151.3	185.8	7.8	8.8	150.8	18.4
Finance leases	187.4	210.7	30.3	28.1	143.1	9.2
Loan notes	8.5	9.0	5.6	3.1	0.3	–
Other financial liabilities	44.7	44.7	44.7	–	–	–
Trade and other payables	2,606.6	2,606.6	2,553.8	52.8	–	–
Derivative financial liabilities						
Contracts used for hedging	227.7	210.8	166.0	37.3	7.5	–
Total	4,100.7	4,308.1	2,869.0	189.8	1,209.9	39.4

30 September 2007	Carrying amount £m	Contractual cash flows £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities						
Shareholder loan	1,400.0	1,695.0	78.8	76.6	1,539.6	–
Secured bank loans	40.5	46.7	9.5	14.0	10.2	13.0
Unsecured bank loans	512.2	668.3	103.2	33.1	532.0	–
Finance leases	178.0	207.0	43.2	37.6	112.9	13.3
Loan notes	28.3	31.3	15.3	3.8	12.2	–
Other interest-bearing liabilities	37.1	37.1	37.1	–	–	–
Trade and other payables	2,110.1	2,110.1	2,048.1	58.2	3.8	–
Derivative financial liabilities						
Contracts used for hedging	162.6	164.8	102.1	20.7	39.6	2.4
Total	4,468.8	4,960.3	2,437.3	244.0	2,250.3	28.7

The actual repayment of revolving credit facilities will vary. The timing reflected in the tables is based on the first date that the Group can be required to settle the liability.

Trade and other payables exclude customers monies paid on account and deferred income.

As at 30 September 2008 the Group had available undrawn committed borrowing facilities of £546.1m (30 September 2007: £249.3m), comprising letters of credit, guarantees and revolving, floating rate credit facilities for cash borrowings. Any non-compliance with covenants underlying the Group's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements. The Group was in full compliance with its financial covenants throughout each of the periods presented.

Undrawn facilities are analysed as follows:

	30 September 2008 £m	30 September 2007 £m
Expiring:		
Within one year	–	–
In more than one year but less than five years	546.1	249.3
Total	546.1	249.3

Notes to the consolidated financial statements
continued**(g) Analysis of total financial assets and financial liabilities**

The tables below set out the Group's IAS 39 classification for each of its financial assets and liabilities:

	Held for trading £m	Available for sale £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
At 30 September 2008					
Cash and cash equivalents	–	1,129.8	–	–	1,129.8
Borrowings due within one year	–	–	–	(54.6)	(54.6)
Borrowings due after more than one year	–	–	–	(1,167.1)	(1,167.1)
Derivative assets	321.0	–	–	–	321.0
Derivative liabilities	(227.7)	–	–	–	(227.7)
Other financial assets	–	22.9	1,203.8	–	1,226.7
Other financial liabilities	–	–	–	(2,651.3)	(2,651.3)
Total	93.3	1,152.7	1,203.8	(3,873.0)	(1,423.2)

	Held for trading £m	Available for sale £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
At 30 September 2007					
Cash and cash equivalents	–	1,958.7	–	–	1,958.7
Borrowings due within one year	–	–	–	(118.6)	(118.6)
Borrowings due after more than one year	–	–	–	(2,040.4)	(2,040.4)
Derivative assets	44.0	–	–	–	44.0
Derivative liabilities	(162.6)	–	–	–	(162.6)
Other financial assets	–	22.9	1,021.9	–	1,044.8
Other financial liabilities	–	–	–	(2,147.2)	(2,147.2)
Total	(118.6)	1,981.6	1,021.9	(4,306.2)	(1,421.3)

Other financial assets comprise trade receivables and other debtors which are receivable within and after more than one year. Other financial liabilities comprise trade payables and accruals which are payable within and after more than one year.

(h) Fair values of financial assets and financial liabilities

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet at 30 September 2008 and at 30 September 2007, are as follows:

	30 September 2008		30 September 2007	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Cash and cash equivalents	1,129.8	1,129.8	1,958.7	1,958.7
Borrowings				
Shareholder loan	(840.0)	(840.0)	(1,400.0)	(1,400.0)
Bank loans	(185.8)	(185.8)	(552.7)	(552.7)
Loan notes	(8.5)	(8.5)	(28.3)	(28.3)
Finance lease liabilities	(187.4)	(178.7)	(178.0)	(176.6)
Derivative financial instruments				
Interest rate swaps used for hedging – liabilities	–	–	(0.2)	(0.2)
Forward exchange contracts used for hedging				
assets	263.8	263.8	32.0	32.0
liabilities	(111.7)	(111.7)	(161.3)	(161.3)
Commodity contracts used for hedging				
assets	57.2	57.2	12.0	12.0
liabilities	(116.0)	(116.0)	(1.1)	(1.1)
Other financial assets				
Trade receivables	1,203.8	1,203.8	1,021.9	1,021.9
Trade investments	22.9	22.9	22.9	22.9
Other financial liabilities				
Other financial liabilities	(44.7)	(44.7)	(37.1)	(37.1)
Trade and other payables	(2,553.8)	(2,553.8)	(2,048.1)	(2,048.1)
Other long-term payables	(52.8)	(52.8)	(62.0)	(62.0)
Total	(1,423.2)	(1,414.5)	(1,421.3)	(1,419.9)

The basis for fair value measurement of financial assets and liabilities is set out in Note 1(Y) to the financial statements.

(i) Derivative instruments

At the balance sheet date the fair value of the Group's derivative financial assets and liabilities was as follows:

	30 September 2008 Assets Fair value £m	30 September 2008 Liabilities Fair value £m	30 September 2008 Total Fair value £m	30 September 2007 Assets Fair value £m	30 September 2007 Liabilities Fair value £m	30 September 2007 Total Fair value £m
Cash flow hedges						
Interest rate swaps	–	–	–	–	(0.2)	(0.2)
Foreign exchange forwards	229.2	(86.6)	142.6	29.2	(151.4)	(122.2)
Foreign exchange options	19.9	(4.0)	15.9	2.1	(3.4)	(1.3)
Commodity options	15.2	(16.1)	(0.9)	2.5	(1.0)	1.5
Commodity swaps	42.0	(99.9)	(57.9)	9.5	(0.1)	9.4
	306.3	(206.6)	99.7	43.3	(156.1)	(112.8)
Hedges held for trading						
Foreign exchange forwards	14.7	(21.1)	(6.4)	0.7	(6.5)	(5.8)
Total	321.0	(227.7)	93.3	44.0	(162.6)	(118.6)
Analysed as:						
Current	273.5	(177.7)	95.8	37.6	(137.1)	(99.5)
Non-current	47.5	(50.0)	(2.5)	6.4	(25.5)	(19.1)
Total	321.0	(227.7)	93.3	44.0	(162.6)	(118.6)

All derivatives are held as cash flow hedges or to offset changes in the value of items recognised in the balance sheet. Speculative positions are not undertaken.

The maturity profile of these derivative financial assets and liabilities (analysed by fair value) was as follows:

30 September 2008	Less than 1 year £m	Between 1 and 2 years £m	Maturity profile Between 2 and 5 years £m	Over 5 years £m	Total £m
Derivative financial assets					
Foreign exchange forwards	207.7	30.0	6.2	–	243.9
Foreign exchange options	14.0	5.5	0.4	–	19.9
Commodity options	12.3	2.3	0.6	–	15.2
Commodity swaps	39.5	2.4	0.1	–	42.0
	273.5	40.2	7.3	–	321.0
Derivative financial liabilities					
Foreign exchange forwards	(75.2)	(16.7)	(15.8)	–	(107.7)
Foreign exchange options	(2.2)	(1.5)	(0.3)	–	(4.0)
Commodity options	(11.6)	(4.4)	(0.1)	–	(16.1)
Commodity swaps	(88.7)	(11.2)	–	–	(99.9)
	(177.7)	(33.8)	(16.2)	–	(227.7)
Total	95.8	6.4	(8.9)	–	93.3

30 September 2007	Less than 1 year £m	Between 1 and 2 years £m	Maturity profile Between 2 and 5 years £m	Over 5 years £m	Total £m
Derivative financial assets					
Foreign exchange forwards	28.0	1.9	–	–	29.9
Foreign exchange options	0.3	0.8	1.0	–	2.1
Commodity options	–	2.5	–	–	2.5
Commodity swaps	9.3	0.2	–	–	9.5
	37.6	5.4	1.0	–	44.0
Derivative financial liabilities					
Interest rate swaps	(0.2)	–	–	–	(0.2)
Foreign exchange forwards	(135.0)	(19.9)	–	(3.0)	(157.9)
Foreign exchange options	(1.8)	(0.6)	(1.0)	–	(3.4)
Commodity options	–	(1.0)	–	–	(1.0)
Commodity swaps	(0.1)	–	–	–	(0.1)
	(137.1)	(21.5)	(1.0)	(3.0)	(162.6)
Total	(99.5)	(16.1)	–	(3.0)	(118.6)

Notes to the consolidated financial statements
continued

The following table indicates the periods in which the cash flows associated with derivatives (which are principally cash flow hedges) are expected to occur:

30 September 2008	Projected cash flows			
	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Derivative financial assets				
Foreign exchange forwards	193.3	37.2	50.6	–
Foreign exchange options	3.4	–	–	–
Commodity options	8.0	–	–	–
Commodity swaps	42.2	2.1	–	–
	246.9	39.3	50.6	–
Derivative financial liabilities				
Foreign exchange forwards	(68.1)	(18.7)	(7.5)	–
Foreign exchange options	–	–	–	–
Commodity options	(8.3)	(3.2)	–	–
Commodity swaps	(89.6)	(15.4)	–	–
	(166.0)	(37.3)	(7.5)	–
Total	80.9	2.0	43.1	–

30 September 2007	Projected cash flows			
	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Derivative financial assets				
Foreign exchange forwards	18.4	2.2	(0.4)	–
Foreign exchange options	(0.7)	–	–	–
Commodity options	4.9	0.8	–	–
Commodity swaps	19.8	0.3	–	–
	42.4	3.3	(0.4)	–
Derivative financial liabilities				
Foreign exchange forwards	(96.3)	(20.7)	(39.6)	(2.4)
Foreign exchange options	(3.2)	–	–	–
Commodity options	–	–	–	–
Commodity swaps	(2.6)	–	–	–
	(102.1)	(20.7)	(39.6)	(2.4)
Total	(59.7)	(17.4)	(40.0)	(2.4)

Ineffectiveness

Ineffectiveness in respect of cash flow hedges has been recognised in the income statement for the year ended 30 September 2008. Ineffectiveness in the year to 30 September 2008 comprised £7.4m (9-month period to 30 September 2007: £3.8m) relating to fuel hedging and this is included within underlying operating profit.

Aircraft order book derivatives

In addition, separately disclosed gains of £27.9m have been recorded in the current year income statement resulting from fair value movements of derivatives undertaken to hedge the Group's future aircraft order book. Due to uncertainty over the timing of future aircraft deliveries, cash flow hedge accounting to equity has been adopted for the intrinsic value of these derivative instruments but the forward or 'time' element of changes to the derivatives' fair values is recognised each period in the income statement as separately disclosed items.

The Directors have included the fair value gains arising in the current year as separately disclosed items (Note 3) because they do not form part of the Group's underlying trading result and because in October 2008 the hedges were unwound and settled early in a planned process. This early settlement has arisen because post the business combination forming TUI Travel, the Board has determined the Group's asset ownership strategy is 'asset right'. In terms of aircraft ownership and financing this means that the Group's preferred solution is to sell and leaseback new aircraft under operating leases at the time of delivery. Consequently, payments for new aircraft in US dollars are now planned to be funded by way of proceeds from sale and leaseback transactions and future US dollar currency requirements are not required to be forward hedged.

(j) Amounts recognised directly in equity

The following amounts have been recognised directly in equity during the year/period:

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Hedging reserve		
Effective portion of changes in fair value of cash flow hedge	162.7	(22.5)
Fair value of cash flow hedges transferred to profit and loss	37.1	25.8
	199.8	3.3
Translation		
Foreign currency translation differences for foreign operations recorded in the statement of recognised income and expense	180.4	44.4
Net charge to equity	380.2	47.7

(k) Capital management

The Board's policy has been to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Group has a roadmap to deliver sustainable long-term value to shareholders with a return on invested capital greater than the Group's weighted average cost of capital. Progress in achieving this objective has been made during this year, by improving underlying operating margins by 0.9ppts to 2.9%, increasing return on invested capital to 8.4%.

The Board seeks to maintain a balance between the levels of debt borrowings undertaken and the advantages and security afforded by a sound capital position. An analysis of net debt at the year end is in Note 26.

51.36% of the Group's share capital is held by TUI AG, please refer to Note 35.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's share award programme. Buy and sell decisions are made on a specific transaction basis by the Board; the Group does not have a defined share buy-back plan.

Certain subsidiaries have external capital requirements as a result of applicable travel industry regulations in their jurisdictions, though none are individually significant to the Group.

Notes to the consolidated financial statements

continued

(I) Sensitivity analysis

The sensitivity analysis is for illustrative purposes only and should not be considered a projection of likely future events and gains or losses.

The sensitivity analysis includes the following assumptions:

- Change in market interest rates only affect interest income or expense of variable financial instruments.
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.
- Changes in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments and all interest rate hedges are expected to be highly effective.
- Changes in the fair value of derivative financial instruments and other financial assets or liabilities are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.
- All foreign currency and fuel cash flow hedges are expected to be highly effective.

The Group has used a sensitivity analysis technique that measures the estimated change to the income statement and equity of a 1% (100 basis points) difference in market interest rates or a 10% strengthening or weakening in Sterling against all other currencies and in fuel prices from the rates applicable at the balance sheet date, with all other variables remaining constant.

Interest rate risk

	30 September 2008				30 September 2007			
	Income statement		Equity (before tax)		Income statement		Equity (before tax)	
	100bp increase £m	100bp decrease £m	100bp increase £m	100bp decrease £m	100bp increase £m	100bp decrease £m	100bp increase £m	100bp decrease £m
Interest rate instruments								
Variable rate instruments	(5.1)	5.1	–	–	1.5	(1.5)	–	–
Fixed rate instruments	–	–	–	–	–	–	–	–
Interest rate swaps	–	–	–	–	–	–	0.8	(0.8)
Total	(5.1)	5.1	–	–	1.5	(1.5)	0.8	(0.8)

Currency risk

Under these assumptions, with a 10% strengthening or weakening of Sterling against all other currencies, loss before tax would have reduced by £23.7m (9-month period ended 30 September 2007: profit reduced by £10.8m) or increased by £28.9m (9-month period ended 30 September 2007: profit increased by £13.2m), respectively (principally relating to the translation of the income statement of overseas subsidiaries). Equity (before tax) would have decreased by £203.6m (2007: £153.4m) or increased by £248.8m (2007: £183.0m), respectively.

Fuel price risk

The sensitivity analysis is based on a 10% increase or decrease in fuel prices and the sensitivity will differ correspondingly if the fuel markets are more or less volatile. Under these assumptions, with a 10% increase or decrease in the unit price of fuel, profit before tax would neither increase nor decrease materially, because of the fuel price hedging policy. Equity (before tax) would increase by £107.6m (2007: £78.4m), or decrease by £142.1m (2007: £55.7m), respectively.

26. Movements in cash and net debt

	30 September 2007 £m	Cash movement £m	Non-cash movement £m	Foreign exchange £m	Arising on acquisition £m	30 September 2008 £m
Cash and cash equivalents	1,958.7	(950.6)	–	121.7	–	1,129.8
Amounts due to related parties	(1,400.0)	778.8	(23.4)	(195.4)	–	(840.0)
Bank loans	(552.7)	400.0	–	(17.5)	(15.6)	(185.8)
Loan notes	(28.3)	21.5	(0.6)	(1.1)	–	(8.5)
Finance leases	(178.0)	25.6	(10.5)	(24.5)	–	(187.4)
Other financial liabilities	(37.1)	–	(4.2)	(3.4)	–	(44.7)
Net debt	(237.4)	275.3	(38.7)	(120.2)	(15.6)	(136.6)

Non-cash movements in respect of loan notes arise from the issue of loan notes by the Group as consideration for acquisitions made during the year. Cash movements in respect of loan notes are presented in the cash flow statement within cash flows arising on acquisition of subsidiaries.

27. Operating lease commitments

Total Group obligations under non-cancellable operating lease contracts are payable as follows:

	Land and buildings 30 September 2008 £m	Aircraft, yachts and equipment 30 September 2008 £m	Land and buildings 30 September 2007 £m	Aircraft, yachts and equipment 30 September 2007 £m
Total commitments under non-cancellable operating leases expiring:				
Within one year	152.5	340.8	153.4	282.4
Between one and five years	414.2	825.5	356.0	671.6
Later than five years	275.3	165.9	296.6	124.7
Total	842.0	1,332.2	806.0	1,078.7

Operating lease commitments in respect of land and buildings principally comprise commitments in respect of the Group's retail estate.

The increase in total aircraft lease commitments year-on-year reflects the sale and operating leaseback of 24 aircraft during the current year. In total the Group operates 128 aircraft on operating leases at 30 September 2008 (2007: 121 aircraft). Yachts are held on operating leases in TUI Marine as part of the Group's Sunsail and The Moorings fleets.

28. Capital commitments

	30 September 2008 £m	30 September 2007 £m
Contracted but not provided for	60.2	31.1

In addition to the above items, the Group has contracted to purchase sixty aircraft, initial deliveries of which will start from the last quarter of 2008. The Group intends to refinance these aircraft in advance of their delivery dates and therefore does not expect to use its own cash resources for their purchase. At list price, the total order value is US\$6,611m.

The Group's joint ventures and associates had no material capital commitments at 30 September 2008 (2007: £nil).

29. Contingent liabilities

The Group is at any time defending a number of actions against it arising in the normal course of business. Provision is made for these actions where this is deemed appropriate. No actions which are outstanding at 30 September 2008 are expected to have a material effect on these accounts. The Directors consider that adequate provision has been made for all known liabilities.

30. Related party transactions

Apart from with its own subsidiaries which are included in the consolidated financial statements, TUI Travel PLC, in carrying out its ordinary business activities, maintained direct and indirect relationships with related parties including consolidated or related companies of its ultimate parent company, TUI AG. These companies delivered services to TUI Travel PLC companies.

The Group also undertook transactions with its joint ventures and associated companies. These transactions related primarily to incoming agencies and hotel companies used by the Group's tour operators. The income and expenses arising from transactions with associates and joint ventures are included within the appropriate sector revenue or costs as presented in the segmental analysis.

All transactions with related parties were executed on an arms length basis and as customary with independent third parties.

Shareholder loan

A shareholder loan was advanced to TUI Travel PLC by TUI AG on 3 September 2007. The loan is repayable in full on 16 January 2011 and bears interest at EURIBOR plus a margin, currently 1.1% per annum, increasing six-monthly by 0.2% to a maximum of 2.0% per annum. The Company can make voluntary repayments at any time during the term of the loan subject to a minimum repayment of €10.0m and the giving of 30 days' notice. The drawn balance of the loan at 30 September 2008 was €1,019.0m (30 September 2007: €2,000.0m), not including accrued interest payable.

Notes to the consolidated financial statements
continued**Hotel Framework Agreement**

As part of the relationship arrangements between TUI Travel PLC and TUI AG at the time of the merger, both parties entered into the Hotel Framework Agreement, which governs the commercial relationship between TUI AG and TUI Travel PLC in respect of the distribution of hotel beds forming part of the hotel portfolio interests retained by TUI AG. Under the Hotel Framework Agreement, TUI Deutschland (TUI Travel PLC's tour operating business) continues to have access to the Robinson hotel portfolio and to the distribution of such portfolio's hotel beds in Europe on the basis of the existing levels of exclusivity and seasonal arrangements between TUI Deutschland and Robinson, as practised prior to the merger. In addition, TUI Deutschland agrees to provide the same services in relation to the distribution of the beds as it did prior to the merger and shall be entitled to use certain Robinson trademarks in connection with these services. The Hotel Framework Agreement expires on 31 October 2011, provided that one year prior to such expiry the parties shall discuss in good faith and endeavour to agree a replacement agreement.

Trademark Licence Agreement

The Trademark Licence Agreement incorporates trademark licences granted from TUI AG to members of the TUI Tourism Group in relation to TUI Tourism's use of the TUI name and logo and other trademarks from within TUI AG's portfolio of trademarks used in the former TUI Tourism's business. Licence fees payable under each licence are an annual fee equal to 0.02 percent of the average annual gross turnover of the relevant licensee under the relevant trademarks measured over a three year period. Total licence fees charged in the year ended 30 September 2008 were £3.2m (9-month period ended 30 September 2007: £2.0m). Each licence's standard terms are for five years with an option for the relevant licensee to extend for a further five years on the same terms.

Details of transactions with related parties and balances outstanding at the balance sheet date are set out in the tables below:

Related Party	Revenue		Expenses	
	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Ultimate parent TUI AG	3.6	2.6	78.3	85.4
Hotel and resort subsidiaries of TUI AG	2.4	1.2	349.2	194.5
Other subsidiaries, joint ventures and associates of TUI AG	18.5	1.6	31.1	4.7
Joint ventures and associates of the Group	18.1	2.3	20.8	19.6
Total	42.6	7.7	479.4	304.2

Related Party	Receivables outstanding		Payables outstanding	
	Year ended 30 September 2008 £m	30 September 2007 £m	Year ended 30 September 2008 £m	30 September 2007 £m
Ultimate parent TUI AG	106.8	169.1	840.0	1,433.0
Hotel and resort subsidiaries of TUI AG	3.7	5.3	52.6	41.1
Other subsidiaries, joint ventures and associates of TUI AG	4.9	2.3	12.0	18.0
Joint ventures and associates of the Group	19.7	16.7	12.9	35.2
Total	135.1	193.4	917.5	1,527.3

In accordance with IAS 24, key management functions within the Group and the Executive Board were related parties whose remuneration had to be listed separately. The compensation paid in respect of key management personnel (including directors) was as follows:

	Year ended 30 September 2008 £m	9-month period ended 30 September 2007 £m
Short-term employee benefits	18.0	1.5
Post-retirement benefits	1.8	0.1
Share-based payments	7.5	0.2
Total	27.3	1.8

In the comparative period, the amounts disclosed are for the one month post-merger period. Details of Directors' Remuneration are given in the Remuneration Report on pages 49 to 59.

31. Key accounting estimates and judgements

The preparation of consolidated financial statements under Adopted IFRSs requires the Group to make estimates and judgements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amount of revenue and expenses during the year/period. The Group evaluates its estimates and judgements on an on-going basis. Such estimates and judgements are based upon historical experience and other factors it believes to be reasonable under the circumstances. Actual results may differ from estimates.

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the applications of these policies and estimates. Key estimates and judgements have been made in respect of the following areas:

Intangible assets – Goodwill carrying value

A full impairment review has been performed of all goodwill balances held across the Group on a cash generating unit basis. The impairment review is performed on a 'value in use' basis, which requires estimation of future net operating cash flows, the time period over which they will occur, an appropriate discount rate and an appropriate growth rate. Further details, including sensitivity analysis, are given in Note 9 and the accounting policy is set out in Note 1(P).

Other asset carrying values

Management perform an assessment at each balance sheet date of all material assets across the Group for signs of impairment. Key judgement areas include the carrying values of land and buildings, aircraft, ships, yachts and motorboats, trade receivables, and prepaid accommodation. The recovery of these assets is dependent on estimated future cash flows receivable and the provision of future services or goods by third parties. Useful economic lives and residual values are subject to regular management review.

Business combinations

Judgement and estimation is required in the identification and valuation of separable assets and liabilities on acquisitions. In particular, judgement and estimation is required in the identification and valuation of separable intangible assets, being brands, orders books and customer databases, and determining appropriate useful economic lives for these assets. Judgement and estimation is also required in determining contingent consideration payable in respect of acquisitions. Details of acquisitions are set out in Note 12.

Provisions

Judgement and estimation is required in determining aircraft maintenance, restructuring and onerous lease provisions. Details of provisions made and the basis on which the provision has been calculated is disclosed in Note 21 and the accounting policy is set out in Note 1(T).

Defined benefit pension plans

A qualified independent actuary undertakes the estimation of the present value of the Group's obligations under defined benefit pension schemes using assumptions taken from a range of possible actuarial assumptions. These assumptions may not be borne out in practice, especially due to the long timescales involved. In particular, the valuation of scheme assets is based on the fair value at the balance sheet date. As these assets are not intended to be sold in the short-term, their value may change significantly prior to realisation. In reviewing the work of the qualified independent actuary management were required to exercise judgement to satisfy themselves that appropriate weight had been afforded to macroeconomic factors. Details of the actual assumptions used, including sensitivity analysis, are set out in Note 5.

Share-based payments

Judgement and estimation is required in determining the fair value of share awards/options when granted. The fair value is estimated using valuation techniques which take into account the award/option's exercise price, its term, the risk-free interest rate and the expected volatility of the market price of the Company's shares. Details of share-based payments and the assumptions applied are disclosed in Note 5 and the accounting policy is set out in Note 1(I).

Derivative financial instruments

Judgement is required in the assessment of prospective effectiveness and specifically in the assessment of the probability of forecast transactions, both at hedge inception and during the period over which hedge accounting is adopted. The fair value of derivative financial instruments can involve judgement. Where appropriate, external valuations from financial institutions are undertaken to support the carrying value of such items.

Non-current assets and disposal groups held for sale

The classification of non-current assets and disposal groups as 'held for sale' requires judgement in determining whether the planned disposal is highly probable and able to be realised within 12 months. The measurement of held for sale assets at their fair value less costs to sell can also require significant judgement if there is no active market.

Notes to the consolidated financial statements
continued**Lease accounting**

Judgement is required in the initial classification of leases as either operating leases or finance leases and, in respect of finance leases, determining the appropriate discount rate implicit in the lease to discount minimum lease payments. In respect of certain leases classified as finance leases, it has not been possible to reliably estimate lessors' residual values and management has been required to independently estimate an appropriate discount rate. Judgement is also required in respect of the treatment of gains and losses arising on the sale and leaseback of assets (see Note 10). The accounting policy for leases is set out in Notes 1(G) and 1(H).

Taxation

The Group has, from time to time, contingent tax liabilities arising from trading and corporate transactions in the UK and overseas jurisdictions. After taking appropriate external advice, the Group makes provision for these liabilities based on the probable level of economic loss that may be incurred and which is reliably measurable. Judgement is also required in the assessment of the future recoverability of tax losses and recognition of deferred tax assets. Details of unrecognised tax losses are given in Note 14.

32. Principal operating subsidiaries

Other than stated below, all the principal operating subsidiaries listed are wholly owned. Principal operating subsidiaries are those which, in the opinion of the Directors, significantly affected the Group's results and net assets during the year. The Directors consider that those companies not listed are not significant in relation to the Group as a whole. All of the subsidiaries have only ordinary share capital except for First Choice Canada Inc., which also has unlimited preference shares all of which are owned by the Group. TUI UK Limited is presented within the Mainstream Sector, Northern Region to reflect its principal operations but the company also includes certain UK Activity and Specialist businesses at 30 September 2008.

Subsidiary	Country	Nature of business
Mainstream – Northern Region		
Falcon Leisure Group (Overseas) Limited	Eire	Tour operator
First Choice Holidays & Flights Limited	United Kingdom	Tour operator
First Choice Airways Limited	United Kingdom	Airline
First Choice Holidays Finance Limited	United Kingdom	Treasury operation
First Choice Retail Limited	United Kingdom	Travel agent
First Choice Canada Inc	Canada	Tour operator
Thomson Airways Limited	United Kingdom	Airline
TUI Nordic Holding AB	Sweden	Tour operator
TUI UK Limited	United Kingdom	Tour operator
TUIfly Nordic AB	Sweden	Airline
Mainstream – Central Europe		
Berge und Meer Touristik GmbH	Germany	Tour operator
Hapag-Lloyd Express GmbH	Germany	Airline
Hapag-Lloyd Fluggesellschaft mbH	Germany	Airline
L'TUR Tourismus AG (51%)	Germany	Tour operator
TUI (Suisse) AG	Switzerland	Tour operator
TUI Austria Holding GmbH	Austria	Tour operator
TUI Aviation GmbH	Germany	Leasing company
TUI Deutschland GmbH	Germany	Tour operator
TUI Leisure Travel GmbH	Germany	Travel agent
TUI Österreich GmbH	Austria	Tour operator
Mainstream – Western Europe		
First Choice Nederland B.V.	Netherlands	Tour operator
Groupe Marmara SAS	France	Tour operator
Groupe Nouvelles Frontières S.A.S.	France	Tour operator
JetAir N.V.	Belgium	Tour operator
TUI Airlines Belgium N.V.	Belgium	Airline
TUI Airlines Nederland B.V.	Netherlands	Airline
TUI Travel Belgium N.V.	Belgium	Tour operator
TUI Nederland N.V.	Netherlands	Tour operator
Société d'Investissement Aérien S.A. (Jet4You)	Morocco	Airline

Jet4You is held for sale at 30 September 2008.

Subsidiary	Country	Nature of business
Specialist & Emerging Markets Sector		
Aventuria SA	France	Tour operator
Boss Tours Quebec Inc	Canada	Tour operator
Caradonna Dive Adventures, Inc	USA	Tour operator
Citalia Holidays Limited	United Kingdom	Tour operator
Country Walkers, Inc	USA	Tour operator
Educational Tours, Inc	USA	Tour operator
EEFC, Inc	USA	Tour operator
Hayes & Jarvis (Travel) Limited	United Kingdom	Tour operator
I Viaggi del Turchese Srl	Italy	Tour operator
International Expeditions, Inc	USA	Tour operator
Les Tours Jumpstreet Tours Inc	Canada	Tour operator
Meon Travel Limited	United Kingdom	Tour operator
National Events Inc.	USA	Tour operator
Royal Vacaciones SL	Spain	Tour operator
Educatours Limited	Canada	Tour operator
Starquest Expeditions, Inc	USA	Tour operator
StudentCity.com, Inc	USA	Tour operator
TCS Expeditions, Inc	USA	Tour operator
Tourinter SA	France	Tour operator
TRAVCOA Corporation	USA	Tour operator
Travelmood Limited	United Kingdom	Long-haul Travel
Your Man Tours, Inc	USA	Tour operator
Activity Sector		
Adventures Worldwide Limited	United Kingdom	Tour operator
Australian Pinnacle Tours Pty Limited	Australia	Tour operator
Australian Sports Tours Pty Ltd	Australia	Tour operator
CHS Tour Services Limited	United Kingdom	Tour operator
Clipper Cruise Line, LLC	USA	Cruise vessel operator
Crown Blue Line Limited	United Kingdom	Tour operator
Events International Limited	United Kingdom	Tour operator
Exodus Travels Limited	United Kingdom	Tour operator
Fanatics Sports & Party Tours Pty Limited	Australia	Tour operator
Gullivers Sport Travel Limited	United Kingdom	Tour operator
Hannibal Travel Group A/S	Denmark	Tour operator
Mariner International Travel, Inc	USA	Tour operator
MyPlanet International A/S	Denmark	Tour operator
Peregrine Adventures Pty Ltd	Australia	Tour operator
Quark Expeditions, Inc	USA	Tour operator
Real Travel Limited	United Kingdom	Tour operator
Sawadee Amsterdam BV	Netherlands	Tour operator
Ski Bound Limited	United Kingdom	Tour operator
Sportsworld Group Limited	United Kingdom	Tour operator
Sunsail Limited	United Kingdom	Tour operator
Sunsail Worldwide Sailing Limited	United Kingdom	Tour operator
The Imaginative Traveller Limited	United Kingdom	Tour operator
The Moorings Limited	British Virgin Islands	Tour operator
World Challenge Holdings Limited	United Kingdom	Tour operator
Yachts International Limited	British Virgin Islands	Tour operator

Notes to the consolidated financial statements
continued

Subsidiary	Country	Nature of business
Online Destination Services Sector		
Asiarooms Pte Limited	Singapore	Online accommodation
Cruiselink II Limited	USA	Cruise services
Destination Florida – New England, Inc.	USA	Cruise services
Hotelbeds (Shanghai) Commercial Services Co, Limited	People's Republic of China	Destination services
Hotelbeds SLU	Spain	Online accommodation
Hotelbeds Spain SLU	Spain	Destination services
Hotelbeds USA, Inc	USA	Destination services
Hotelopia SL	Spain	Online accommodation
Hotels London Limited	United Kingdom	Online accommodation
Late Rooms Limited	United Kingdom	Late accommodation
Pacific World Limited	Hong Kong	Destination services
Pacific World Singapore Pte Limited	Singapore	Destination services
Trina Tours Limited	United Kingdom	Destination services
TUI España Turismo S.A.	Spain	Destination services

33. Earnings per share

The basic earnings per share is calculated by dividing the result attributable to ordinary shareholders by the applicable weighted average number of shares in issue during the year, excluding those held in the employee share ownership trusts. The diluted earnings per share is calculated on the result attributable to ordinary shareholders divided by the adjusted weighted average number of ordinary shares, which takes account of the outstanding share awards, where their conversion is dilutive. The additional earnings per share measures have been given to provide the reader of the accounts with a better understanding of the results.

As the majority of the Group's share capital was not in issue for eight months of the prior period, the weighted average number of shares would not give a meaningful result and hence the number of shares outstanding at 30 September 2007 has been used to calculate the prior period earnings per share.

Basic earnings per share

	(Loss)/ earnings 2008 £m	Weighted average no. of shares 2008 Millions	(Loss)/ earnings per share 2008 Pence	Pro forma earnings 2007 £m unaudited	No. of shares 30 September 2007 Millions unaudited	Pro forma earnings per share 2007 Pence unaudited	Earnings 2007 £m	No. of shares 30 September 2007 Millions	Earnings per share 2007 Pence
Basic (loss)/earnings per share	(270.7)	1,108.7	(24.4)	6.6	1,109.3	0.6	71.1	1,109.3	6.4
Amortisation of business combination intangibles, and impairment of goodwill (net of tax)	173.6		15.6	50.8		4.6	30.0		2.7
Basic (loss)/earnings per share before amortisation of business combination intangibles, and impairment of goodwill (net of tax)	(97.1)	1,108.7	(8.8)	57.4	1,109.3	5.2	101.1	1,109.3	9.1
Separately disclosed items (net of tax)	323.1		29.2	102.0		9.2	25.5		2.3
Basic underlying earnings per share	226.0	1,108.7	20.4	159.4	1,109.3	14.4	126.6	1,109.3	11.4

Diluted earnings per share

	(Loss)/ earnings 2008 £m	Weighted average no. of shares 2008 Millions	(Loss)/ earnings per share 2008 Pence	Pro forma earnings 2007 £m unaudited	No. of shares 30 September 2007 Millions unaudited	Pro forma earnings per share 2007 Pence unaudited	Earnings 2007 £m	No. of shares 30 September 2007 Millions	Earnings per share 2007 Pence
Basic (loss)/earnings per share	(270.7)	1,108.7	(24.4)	6.6	1,109.3	0.6	71.1	1,109.3	6.4
Effect of dilutive options		9.3	0.2		8.7	–		8.7	–
Basic (loss)/earnings per share adjusted for dilution	(270.7)	1,118.0	(24.2)	6.6	1,118.0	0.6	71.1	1,118.0	6.4
Amortisation of business combination intangibles, and impairment of goodwill (net of tax)	173.6		15.5	50.8		4.5	30.0		2.6
Diluted (loss)/earnings per share before amortisation of business combination intangibles, and impairment of goodwill (net of tax)	(97.1)	1,118.0	(8.7)	57.4	1,118.0	5.1	101.1	1,118.0	9.0
Separately disclosed items (net of tax)	323.1		28.9	102.0		9.2	25.5		2.3
Diluted underlying earnings per share	226.0	1,118.0	20.2	159.4	1,118.0	14.3	126.6	1,118.0	11.3

In the year ended 30 September 2008 the effect of options is anti-dilutive due to the loss for the year. The anti-dilutive effect is not taken into account and basic loss per share and diluted loss per share are both disclosed as (24.4) pence. The effect of diluted options in 2008 is included solely to calculate diluted underlying earnings per share.

34. Post balance sheet events

The following events after 30 September 2008 are disclosed in the notes to the consolidated financial statements:

- Acquisitions: details of acquisitions since the balance sheet date are set out in Note 12.
- Close out of aircraft order book hedging derivatives: details are provided in Note 25.

In addition, on 23 October 2008 the Group sold and leased back one aircraft under an operating lease for sale proceeds of \$42.5m.

35. Ultimate parent company

The ultimate parent company is considered to be TUI AG, a company registered in Berlin and Hanover (Federal Republic of Germany). At 30 September 2008 TUI AG is the beneficial owner of 51.36% of the ordinary share capital of the Company on a fully diluted basis.

Prior to the business combination of First Choice Holidays PLC and the Tourism Division of TUI AG, TUI Travel PLC and TUI AG entered into a Relationship Agreement that would take effect at the time of the merger. The Relationship Agreement will remain in force until either the shares of the Company are no longer admitted to listing on the Official List and to trading on the London Stock Exchange, or TUI AG has less than 10% of the rights to vote at general meetings of TUI Travel PLC. This agreement determines that the relationship between the parties is an arms length, standard commercial relationship and that all transactions are effected on this basis.

TUI AG prepares consolidated financial statements which include the results of the Company. The accounting reference date of TUI AG is 31 December. Copies of the TUI AG financial statements are publicly available and can be obtained from the registered office of this company situated at Karl-Wiechert-Allee 4, 30625 Hanover, Federal Republic of Germany.