
Notes to the Company's financial statements

for the 14-month period ended 30 September 2008

A. Accounting policies

Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Accounting convention

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention. The financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

In September 2007 the Company changed its accounting reference date from 31 July to 30 September and therefore draws up accounts for the 14-month period ended 30 September 2008. The comparative figures cover the period from incorporation (29 January 2007) to 31 July 2007.

The Company has taken advantage of the exemption under Section 230(4) of the Companies Act 1985 from presenting its own profit and loss account. The profit after tax included in the financial statements of TUI Travel PLC, determined in accordance with the Act, was £376.3m (2007: £nil).

Under Financial Reporting Standard No 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement as its cash flows are included within the published consolidated statement of cash flows of TUI Travel PLC.

The Company has taken advantage of the exemption contained within FRS 8 and has not therefore disclosed transactions or balances with entities which form part of its Group.

The Company has taken advantage of the exemption contained within FRS 29 and has not provided the required financial instruments disclosure on the basis that the Group's consolidated financial statements include consolidated IFRS 7 disclosures which are compliant with the requirements of FRS 29.

Foreign currencies

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. 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.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease. Operating lease income is recognised in the profit and loss account on a straight-line basis over the period of the lease.

Investments

In the Company's financial statements, investments in subsidiaries are stated at cost less provision for impairment. Dividends received and receivable are credited to the Company's profit and loss account.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Classification of financial instruments issued

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following conditions: they include no contractual obligation upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company and; where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Notes to the Company's financial statements for the 14-month period ended 30 September 2008 *continued*

Derivative financial 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.

Share-based payment

The Company operates share-based payment schemes for the employees of its subsidiaries. The fair value of options granted to employees of the Company is recognised as an employee expense with a corresponding increase in equity. However, as the Company has no employees, there is no recognition of an employee expense nor the corresponding increase in equity. Rather the Company grants awards of its own shares to the employees of its subsidiaries and as such the Company recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity. The fair value is measured at grant date and is spread over the period during which the employee becomes unconditionally entitled to the awards. Calculating the fair value takes into account various factors including the expected volatility of the shares, the dividend yield and the risk free interest rate. Further information on the share schemes is provided in Note 5 to the consolidated financial statements.

The increase in investments and credit to equity for the 14-month period ended 30 September 2008 is £13.8m, comprising £0.3m relating to the period ended 30 September 2007 and £13.5m relating the year ended 30 September 2008.

Transactions of the Group-sponsored Employee Benefit Trust are included in the Company's financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

Taxation

The charge for taxation is based on the profit or loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences, which have arisen but not reversed at the balance sheet date. Timing differences arise when items of income and expenditure are included in tax computations in periods different from their inclusion in the financial statements.

Dividend on shares presented within shareholders' funds

Dividend distribution to the Company's shareholders is recognised as a liability and deducted from equity 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.

Auditors' Remuneration

The Company's 2008 audit fee was £25,000 (2007: £1,000).

B. Directors' remuneration and employees

Details of Directors' remuneration, gains made by them on vesting of share awards, amounts receivable by them under long-term incentive schemes and pension entitlements in the current period and prior period are contained in the audited section of the Remuneration Report on pages 54 to 59 and in Note 5 to the consolidated financial statements. The Company had no employees (2007: nil). Details of all share awards issued by the Company are given in Note 5 to the consolidated financial statements.

C. Dividends

Details of dividends paid and proposed by the Company in the current period and prior period and details of dividends proposed subsequent to the balance sheet date are given in Note 8 of the consolidated financial statements.

D. Investments

	Shares in Subsidiaries £m
Cost	
At 1 August 2007	–
Acquisitions	988.4
Additions	13.8
Disposals	(296.2)
At 30 September 2008	706.0
Provision for diminution in value	
At 1 August 2007 and at 30 September 2008	–
Net book value	
At 30 September 2008	706.0
At 31 July 2007	–

Additions represent share-based payment liabilities incurred. The costs of the share-based schemes, which are operated for employees of the Company's subsidiaries, are borne by the subsidiaries, subject to local accounting standards. The Company recognises an increase in the investment in the subsidiary and a credit to retained earnings, in accordance with FRS 20: Share-based Payment.

Details of the principal operating subsidiaries held directly and indirectly by the Company and of companies acquired in the period ended 30 September 2008 can be found in Notes 32 and 12 of the Group's consolidated financial statements. Acquisitions include £296.2m in respect of new shares in TUI Travel Holdings Limited, a new intermediary group holding company.

During the year the Company disposed of its 100% shareholdings in various subsidiary companies to another subsidiary, TUI Travel Holdings Limited, by way of a share-for-share exchange. There has been no change in the underlying interests held by the Company following this Group reorganisation, no gain or loss has been recorded and the cost of the new shares in TUI Travel Holdings Limited has been recorded at the same value as the investments in the companies disposed of.

E. Debtors

	30 September 2008 £m	31 July 2007 £m
Amounts owed by group undertakings	546.5	–
Other debtors	0.8	–
Total	547.3	–

F. Creditors: amounts falling due within one year

	30 September 2008 £m	31 July 2007 £m
Preference share capital	–	0.1
Loan notes	1.8	–
Amounts owed to group undertakings	60.5	–
Deferred and contingent consideration	4.4	–
Other creditors	0.2	–
Accruals and deferred income	2.9	–
Total	69.8	0.1

As described more fully in Note H, the preference shares were redeemed on 18 March 2008.

Notes to the Company's financial statements
for the 14-month period ended 30 September 2008
continued

G. Creditors: amounts falling due after more than one year

	30 September 2008 £m	31 July 2007 £m
Loan notes	0.3	–
Bank loans and overdrafts	132.2	–
Amounts owed to group undertakings	3.2	–
Amounts owed to ultimate parent	840.0	–
Deferred and contingent consideration	22.3	–
Total	998.0	–

Amounts owed to Group undertakings at 30 September 2008 comprise a shareholder loan from the ultimate parent, TUI AG. The 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.

Loan notes repayable after more than one year are due within 1 to 2 years. Bank loans and overdrafts comprise bank loans repayable within 2 to 5 years.

H. Share capital

	30 September 2008 £m	31 July 2007 £m
Authorised share capital		
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 share capital		
1,118,010,670 (2007: 1,118,010,670) ordinary shares of 10p each	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	–

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 Holiday'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.

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 31 July 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.

I. Capital and reserves

	Share capital account £m	Profit and loss account £m	Capital reserve £m	Other reserve £m	Total £m
Profit for the period	–	376.3	–	–	376.3
Issue of shares	111.8	–	–	–	111.8
Share issue costs	–	(23.3)	–	–	(23.3)
Share-based payment costs	–	–	–	13.8	13.8
Shares acquired to satisfy share-based payment schemes	–	(19.9)	–	–	(19.9)
Dividends paid	–	(65.4)	–	–	(65.4)
Redemption of preference share capital	–	(0.1)	0.1	–	–
At 30 September 2008	111.8	267.6	0.1	13.8	393.3

At 30 September 2008 shareholders' funds are all due to equity shareholders. The capital reserve and other reserve are not distributable.

J. Operating lease commitments

The Company's obligations under operating lease contracts are as follows:

	Aircraft 30 September 2008 £m	Aircraft 31 July 2007 £m
Annual commitments under non-cancellable operating leases expiring:		
Within one year	–	–
Within two to five years	–	–
After five years	7.0	–
Total	7.0	–

All operating lease commitments relate to aircraft. Aircraft leased by the Company are sub-leased to subsidiary undertakings on similar terms.

K. Contingent liabilities

Under the terms of guarantees given to the Civil Aviation Authority and other relevant authorities by the Company in respect of certain subsidiaries, in the event of default the Company could be held liable to the extent of the subsidiaries' net trading liabilities at the time of default.

The Company, and its subsidiaries, 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.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

L. Post balance sheet events

Details of post balance sheet events relevant to the Company and its Group are given in Note 34 to the consolidated financial statements.