

**THOMAS COOK AIRLINES
LIMITED**

Report and Financial Statements

For the year ended 30 September 2010



THOMAS COOK AIRLINES LIMITED
REPORT AND FINANCIAL STATEMENTS

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THOMAS COOK AIRLINES LIMITED

Officers and professional advisers

DIRECTORS

F S Pullman
S P E Solomon
D Alexander
T A Oldham
I J Smith
J M Boler
D A Watson
I S Ailles

COMPANY SECRETARY

T A Oldham

REGISTERED OFFICE

The Thomas Cook Business Park
Coningsby Road
Peterborough
PE3 8SB

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
WC2N 6RH
London

THOMAS COOK AIRLINES LIMITED

Directors' report

The directors present their annual report on the affairs of the Company, together with the financial statements and independent auditors' report. This annual report covers the year ended 30 September 2010.

BUSINESS REVIEW AND ACTIVITIES

Thomas Cook Airlines Limited is a wholly owned subsidiary of Thomas Cook Group plc ("TCG plc" / "the Group") a company that is listed on the London Stock Exchange.

The results for the Company show a pre tax profit of £31.2 million (2009: loss of £29.6 million) for the year and sales of £1,027.0 million (2009: £989.1 million). The Company has net assets of £91.3 million (2009: £77.9 million). Net cash outflow from operating activities for 2010 was £127.3 million (2009: £133.4 million inflow).

Thomas Cook Group plc operates in the UK through a number of subsidiary companies the activities of which include packaged holidays, airline operations, sales channels including retail and online dynamic packaging / component travel businesses and scheduled tour operators.

The principal activity of Thomas Cook Airlines Limited is that of a charter airline operator.

The volcanic ash cloud and resultant closure of airspace had a significant impact on the April flying programme, but also a knock-on effect on demand throughout the summer season. The direct costs of the volcanic ash cloud incident, which have been included within exceptional items were £10.3 million.

BUSINESS ENVIRONMENT

Following significant market consolidation in 2007 two major vertically integrated operators operate within the UK travel industry:

- Thomas Cook Group plc (created via the merger of Thomas Cook AG and MyTravel Group plc)
- TUI Travel PLC

As has been the case in recent years the Company has faced considerable volatility in its business environment. In particular the UK market has seen a prolonged period of economic weakness and rising unemployment. Continued weakness of Sterling against other major currencies, especially the Euro, has put pressure on package holiday input costs and has influenced the level of demand for some destinations.

STRATEGY AND FUTURE OUTLOOK

TCG plc strategy is focused on four key growth drivers:

- Maximising value of mainstream travel
- Establishing Thomas Cook as a leading provider of independent travel
- Building our position as a leading provider of travel related financial services
- Extending our business through mergers, acquisitions and partnerships

The merger of Thomas Cook AG and MyTravel Group plc has generated considerable synergy benefits. These have arisen principally in the UK as this is where the significant overlap of operations occurred. The previous financial year saw considerable exceptional restructuring costs which accompanied the realisation of these benefits.

THOMAS COOK AIRLINES LIMITED

Directors' report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The UK Group have identified a number of risks and uncertainties that could potentially damage the current business model and future growth opportunities

- Geo-political events and natural disasters – The nature of our business operations exposes the UK Group to a wide range of geo-political risks and potential natural disaster scenarios. To counter this, the UK Group operates a flexible business model with the ability to shift capacity amongst destinations where necessary
- Information Technology – IT plays a major role in day to day operations, the UK Group recognises this importance and invests accordingly in systems to ensure an efficient and reliable service is maintained
- Financial risk – the UK Group is primarily exposed to the two key financial risk areas of fuel prices and foreign currency exchange rates. We manage both of these risks appropriately through the use of various hedging instruments in accordance with policies that have been agreed with the UK Group. The objective of foreign currency hedging policy is to minimise the potential exposure arising from any market change in exchange rates following the production of leisure travel brochures. Appropriate fuel hedges are established in order to minimise the potential exposure arising from any market fuel price movements following the time that flight schedules are fixed
- Environmental risk – As a major tour operator we use aircraft to take people on holidays, sometimes to countries where tourism is just developing. We take our corporate and social responsibilities very seriously. We operate a modern, efficient airline and work with authorities and local suppliers in destinations to ensure that any environmental impact is minimised

KEY PERFORMANCE INDICATORS (“KPI’s”)

The directors of Thomas Cook Group plc manage the Group's operations on a segmental basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Thomas Cook Airlines Limited. The development, performance and position of the UK segment of the Group, which include the results of the Company, are discussed in the financial review on pages 42 to 45 of the Group's annual report, which does not form part of this report

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of financial risks, including the effects of changes in currency exchange rates, credit exposure, liquidity and interest rates. The directors manage these risks in accordance with policies that have been agreed with TCG plc. The main risks arising from the Company's financial instruments can be analysed as follows

Currency risk

The Company is exposed in its trading operations to the risk of changes in currency exchange rates. Appropriate forward contracts are used to hedge this exposure

Credit risk

The Company's principal financial assets are bank balances, cash and trade and inter-company debtors which represent the Company's maximum exposure to credit risk in relation to financial assets. Risk is managed through internal monitoring processes

THOMAS COOK AIRLINES LIMITED

Directors' report (continued)

FINANCIAL RISK MANAGEMENT (continued)

Price risk

The Company is not materially exposed to commodity price risk as a result of its operations

Liquidity risk

The Company has appropriate overdraft facilities in place with various banks where considered necessary. The Company uses its annual budget and planning process to predict and manage expected future liquidity. The liquidity forecast is reviewed and updated on a regular basis.

Interest rate risk

The Company is subject to risks arising from interest rate movements in connection with the cost of servicing its short-term borrowings and the returns on its liquid assets. The risks associated with this are managed at a Group level in conjunction with the liquidity risk.

EQUAL OPPORTUNITIES

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status and offers training and career development for disabled staff. If members of staff become disabled the Company continues employment wherever possible and arranges retraining.

EMPLOYEE INVOLVEMENT

The Company is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when decisions that are likely to affect their interests. In addition, the Company encourages the involvement of employee's by means of regular briefing meetings, supplemented by a range of staff magazines. Surveys are held regularly as a means of measuring the effectiveness of the ways in which staff are managed.

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year to 30 September 2010 (2009 £nil)

DIRECTORS

The directors, who served during the year and up to the date of signing the financial statements except where noted below, were as follows:

F S Pullman
S P E Solomon
L W Mollan (resigned 24 August 2010)
D Alexander
P P Constanti (resigned 19 August 2010)
T A Oldham
I J Smith
J Wild (resigned 22 August 2010)
C J Gadsby (resigned 8 February 2011)
J M Boler (appointed 1 April 2010)
I Derbyshire (appointed 1 April 2010, resigned 8 February 2011)
D A Watson (appointed 8 February 2011)
I S Ailles (appointed 8 February 2011)

THOMAS COOK AIRLINES LIMITED

Directors' report (continued)



COMPANY SECRETARY

T A Oldham

DIRECTORS' INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and remain in force at the date of this report

SUPPLIER PAYMENT POLICY

The UK Group's policy, which is also applied by the Company, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 30 September 2010 were equivalent to 29 days (2009 27 days) purchases, based on the average daily amount invoiced by suppliers during the year

CHARITABLE AND POLITICAL CONTRIBUTIONS

The Company made no charitable or political donations during the year (2009 £nil)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

THOMAS COOK AIRLINES LIMITED

Directors' report (continued)

PROVISION OF INFORMATION TO AUDITORS

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved, the following applies

(a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

INDEPENDENT AUDITORS

A resolution will be proposed at the next Annual General Meeting to re-appoint PricewaterhouseCoopers LLP as auditors of the Company

On behalf of the Board,

 John Boler

Director

21 February 2011

Company Registration Number: 2012379

Independent auditors' report to the members of THOMAS COOK AIRLINES LIMITED

We have audited the financial statements of Thomas Cook Airlines Limited for the year ended 30 September 2010 which comprise the Income statement, the Statement of comprehensive income and expense, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 September 2010 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 February 2011

THOMAS COOK AIRLINES LIMITED

Income statement for the year ended 30 September 2010

	Note	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Revenue	3	1,027,018	989,073
Cost of sales		(847,624)	(902,001)
Cost of sales – Exceptional	4	(25,867)	-
Gross profit		153,527	87,072
Operating expenses	5	(116,439)	(92,037)
Operating expenses – Exceptional	4,5	(187)	(14,121)
Disposal of items of property, plant and equipment		214	(29)
Operating profit/(loss)		37,115	(19,115)
Analysed between			
Operating profit/(loss) before exceptional items		63,169	(4,994)
Exceptional items	4	(26,054)	(14,121)
Income from investments		550	-
Finance income	6	19,097	18,002
Finance costs	7	(25,518)	(28,505)
Profit/(loss) before tax	8	31,244	(29,618)
Income tax (charge)/credit	10	(9,826)	10,482
Profit/(loss) for the year	26	21,418	(19,136)
Attributable to:			
Equity holders of the parent		21,418	(19,136)

All revenues and results arose from continuing operations

THOMAS COOK AIRLINES LIMITED

Statement of comprehensive income and expense for the year ended 30 September 2010


		Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
	Note		
Profit/(loss) for the year		21,418	(19,136)
Other comprehensive income and expense			
Actuarial loss on defined benefit pension scheme	24	(8,945)	(69,456)
Deferred tax on actuarial loss on defined benefit pension scheme	22	887	16,131
Other comprehensive expense for the year		(8,058)	(53,325)
		<u>13,360</u>	<u>(72,461)</u>

THOMAS COOK AIRLINES LIMITED

Balance sheet as at 30 September 2010

	Note	30 September 2010 £'000	30 September 2009 £'000
Non-current assets			
Property, plant and equipment	11	246,509	260,895
Intangible assets	12	38,078	38,204
Investments in subsidiary undertakings	13	48,400	48,400
Other investments – loans and receivables	13	13,864	13,747
Trade and other receivables	15	35,565	36,653
Deferred income tax	22	24,447	33,386
		406,863	431,285
Current assets			
Inventories	14	8,526	6,918
Trade and other receivables	15	187,122	143,544
Cash and cash equivalents	17	116,480	305,249
Derivative financial instruments	20	9,839	-
		321,967	455,711
Total assets		728,830	886,996
Current liabilities			
Trade and other payables	16	(344,609)	(477,409)
Borrowings	18	(22,235)	(93,443)
Short-term provisions	23	(50,507)	(26,982)
Derivative financial instruments	20	-	(15,906)
		(417,351)	(613,740)
Net current liabilities		(95,384)	(158,029)
Non-current liabilities			
Trade and other payables	16	(1,617)	(781)
Borrowings	18	(56,084)	(22,253)
Long-term provisions	23	(85,086)	(99,620)
Pension deficit	24	(77,408)	(72,678)
		(220,195)	(195,332)
Total liabilities		(637,546)	(809,072)
Net assets		91,284	77,924
Equity attributable to owners of the parent			
Called up share capital	25	105,438	105,438
Retained deficit	26	(14,154)	(27,514)
Total equity		91,284	77,924

The financial statements on pages 8 to 46 were approved by the board of directors and authorised for issue on 21 February 2011. They were signed on its behalf by


John Boler, Director

Company Registration Number. 2012379

THOMAS COOK AIRLINES LIMITED

Statement of changes in equity for the year ended 30 September 2010

	Share capital £'000	Retained earnings/(deficit) £'000	Total £'000
Opening balance at 1 October 2008	105,438	44,947	150,385
Loss for the year	-	(19,136)	(19,136)
Actuarial loss on defined benefit pension scheme	-	(69,456)	(69,456)
Movement on deferred tax in relation to the defined benefit pension scheme	-	16,131	16,131
At 30 September 2009	105,438	(27,514)	77,924
Profit for the year	-	21,418	21,418
Actuarial loss on defined benefit pension scheme	-	(8,945)	(8,945)
Deferred tax on actuarial loss on defined benefit pension scheme		887	887
At 30 September 2010	105,438	(14,154)	91,284

THOMAS COOK AIRLINES LIMITED

Cash flow statement for the year ended 30 September 2010

	Note	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Cash flows (used in) / generated from operating activities			
Cash (used in) / generated from operations	27	(127,261)	133,423
Income taxes paid		-	(1)
Net cash (used in) / generated from operating activities		(127,261)	133,422
Investing activities			
Interest received		101	247
Proceeds on disposal of property, plant and equipment		1,712	68
Purchases of property, plant and equipment		(20,770)	(22,710)
Purchases of intangible assets		(230)	(775)
Loan repayments		1,075	2,139
Dividend from subsidiary		550	-
Net cash used in investing activities		(17,562)	(21,031)
Financing activities			
Interest paid		(1,476)	(4,634)
Interest paid on finance leases		(5,093)	(7,189)
Capital element of obligations under finance leases		(34,723)	(56,470)
Proceeds from new borrowings		-	7,468
Repayment of borrowings		(2,654)	-
Net cash used in financing activities		(43,946)	(60,825)
Net (decrease)/increase in cash and cash equivalents		(188,769)	51,666
Cash and cash equivalents at beginning of year		305,249	253,683
Cash and cash equivalents at end of year	17	116,480	305,249

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

1. General information

Thomas Cook Airlines Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is The Thomas Cook Business Park, Coningsby Road, Peterborough, PE3 8SB. The nature of the Company's operations and its principal activities are set out in the Directors' Report. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. At 30 September 2010 the Company was a wholly-owned subsidiary company (note 30) and was included within the audited consolidated financial statements of Thomas Cook Group plc, a company incorporated in Great Britain, which were prepared in accordance with International Financial Reporting Standards and filed with the Registrar of Companies. The Company is therefore exempt from the obligation to prepare consolidated financial statements under section 400 of the Companies Act 2006.

In the current year, the following new or amended standards have been adopted and have affected the amounts reported or the disclosure and presentation in these financial statements:

IAS 1 (Revised) 'Presentation of Financial Statements' is effective for annual reporting periods commencing on or after 1 January 2009. The amendments require a number of presentational changes, including the introduction of a statement of comprehensive income and the requirement to present a statement of changes in equity as a primary statement. The statement of comprehensive income represents all items of recognised income and expense in either one statement or two linked statements. Management has elected to present two statements.

In the current year, the following new or amended standards and interpretations have also been adopted. Their adoption has not had a significant impact on the amounts reported or the disclosure and presentation in these financial statements, but may impact the accounting or the disclosure and presentation for future transactions and arrangements.

IAS 39 (Amendment) 'Eligible hedged items' is effective for annual reporting periods commencing on or after 1 July 2009. The amendment prohibits the time value component of derivative options being designated as an effective hedge.

IFRS 7 (Amendment) 'Financial instruments: disclosure' is effective for annual reporting periods commencing on or after 1 July 2009. The amendment requires enhanced disclosure for fair value and measurement risk.

IFRS 2 (Amendment) 'Share based payments' is effective for annual reporting periods commencing on or after 1 January 2009. The amendment provides a definition of vesting conditions and specifies the accounting treatment for non-vesting conditions.

IAS 32 (Amendment) 'Financial instruments: presentation' is effective for annual reporting periods commencing on or after 1 January 2009. The amendment clarifies the treatment of puttable financial instruments, whereby puttable instruments meeting certain criteria are treated as equity as opposed to financial liabilities.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

1. General information (continued)

IFRIC 14 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective for annual reporting periods commencing on or after 1 January 2009. The interpretation provides guidance on the amount of pension scheme surpluses that can be recognised as a defined benefit asset and when minimum funding requirements may give rise to additional liabilities.

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

IAS 24 (Amendment) 'Related parties', is effective for annual reporting periods commencing on or after 1 January 2011. The amendment clarifies the definition of related parties.

IFRS 2 (Amendment) 'Share-based payments', is effective for annual reporting periods commencing on or after 1 January 2010. This amendment clarifies the scope and accounting for group settled share-based payments.

IAS 32 (Amendment) 'Classification of rights' is effective for annual periods commencing on or after 1 February 2010. The amendment clarifies the treatment of rights, options or warrants issued to acquire a fixed number of an entity's own equity instruments for a fixed amount of consideration.

IFRS 9 'Financial instruments' is effective for annual reporting periods commencing on or after 1 January 2013. This standard will eventually replace IAS 39 but currently only details the requirements for recognition and measurement of financial assets.

IFRIC 14 (Amendment) 'Prepayments of a minimum funding requirement' is effective for annual reporting periods commencing on or after 1 January 2011. The amendment remedies one of the consequences of IFRIC 14, whereby an entity under certain circumstances is not allowed to recognise an asset for the prepayment of a minimum funding agreement.

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

2. Significant accounting policies

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

Basis of preparation

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

The Company is reliant on the support of the fellow group undertaking Thomas Cook Group UK Limited. This support has been formally provided and accordingly the directors of Thomas Cook Airlines Limited have prepared these financial statements on a going concern basis.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

2. Significant accounting policies (continued)

The financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments. The principal accounting policies adopted are set out below. The financial statements are prepared on a going concern basis.

1. Subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less provision for impairment. Dividends received from these investments are recognised in the income statement on the date of receipt and classified as investment income.

2. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The allocation of goodwill is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Any impairment is recognised immediately in the Company's income statement. Impairment losses on goodwill are not reversed.

Licenses

Licenses consist of maximum take off weight licenses acquired to enable aircraft to fly with an increased load. They are carried at cost less accumulated depreciation. The licenses are amortised on a straight line basis over the remaining life of the lease of the aircraft.

3. Property, plant and equipment

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

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

Depreciation on property, plant and equipment, other than freehold land, upon which no depreciation is provided, is calculated on a straightline basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Freehold buildings	40 to 50 years
Leasehold properties	Shorter of remaining lease period and 40 years
Aircraft	18 years (or remaining lease period if shorter)
Aircraft spares	5 to 15 years (or remaining lease period if shorter)
Other fixed assets	3 to 15 years

Estimated residual values and useful lives are reviewed annually.

4. Aircraft overhaul and maintenance costs

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

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

2 Significant accounting policies (continued)

5 Inventories

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

6 Revenue recognition and associated costs

Revenue is the total amount receivable by the Company in the ordinary course of business for goods supplied as principals and for services provided, excluding value added tax. Revenues and expenses relating to charter flight sales are recognised in the income statement on flight departure and include the following revenues: seat revenue, passenger taxes, in flight sales, in flight entertainment, insurance surcharges, excess baggage, prebookables and cargo.

7. Income statement presentation

Profit or loss from operations includes the results from operating activities of the Company. Exceptional items are items that are unusual because of their size, nature or incidence and which the Company's management consider should be disclosed separately to enable a full understanding of the Company's results.

8. Tax

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

Tax currently payable is provided on taxable profits based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Provision is made for deferred tax so as to recognise all temporary differences which have originated but not reversed at the balance sheet date that result in an obligation to pay more tax, or a right to pay less tax, in the future, except as set out below. This is calculated on a non-discounted basis by reference to the average tax rates that are expected to apply in the relevant jurisdictions and for the periods in which the temporary differences are expected to reverse.

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

9. Pensions

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

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

10. Foreign currency

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

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

2. Significant accounting policies (continued)

11. Leases

Leases under which substantially all of the risk and rewards of ownership are transferred to the Company are finance leases, all other leases are operating leases

Assets held under finance leases are recognised within property, plant and equipment on the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

12. Trade receivables – non derivative financial assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in the income statement.

13. Trade payables

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

14. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

15. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

16. Provisions

Provisions for restructuring costs and legal claims are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

2. Significant accounting policies (continued)

17. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

18. Derivative financial instruments

Derivatives are recognised at their fair value. When a derivative does not qualify for hedge accounting as a cash flow hedge, changes in fair value are recognised immediately in the Statement of comprehensive income. When a derivative qualifies for hedge accounting as a cash flow hedge, changes in the fair value that are deemed to be an effective hedge are recognised directly in the hedging reserve. Any ineffective portion of the change in fair value is recognised immediately in the Income statement.

The Company does not designate any of its derivative financial instruments as cash flow hedges and hence takes all changes in fair value through the Income statement.

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

19. Share-based payments

The Company has applied the requirements of IFRS 2 'Share-based payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 November 2004.

The parent company issues share options to certain employees of the Company as part of their total remuneration. The fair values of the share options are calculated at the date of grant, using the Black-Scholes option pricing model. These fair values are charged to the income statement on a straight-line basis over the expected vesting period of the options. This amount has been charged to the Company by Thomas Cook Group plc.

20. Critical judgments in applying the Company's accounting policies

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

- **Residual values of property, plant and equipment**

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

21. Key sources of estimation uncertainty

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

- **Aircraft Maintenance Provisions**

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

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

2. Significant accounting policies (continued)

21. Key sources of estimation uncertainty (continued)

- **Derivative financial instruments**

Judgment is required in determining the fair value of derivative financial instruments at each balance sheet date. Where appropriate external valuations from financial institutions and internal valuations from the Thomas Cook Group treasury team are undertaken to support the carrying value of such items.

22. Change in accounting estimate

During the year, the Group conducted a review of the estimated useful economic lives of its aircraft. This has resulted in a change in the expected useful lives of aircraft from 12 - 20 years to 18 years.

The change in estimate has been implemented as of 1 April 2010 and has resulted in an increase in depreciation in the current year of £0.9m, which will be offset by decreased depreciation in future periods.

23. Finance income and costs

Finance income and costs are recognised on an accruals basis when they fall due.

3. Revenue

The Company has only one principal activity which is that of a charter airline operator. All results relate to this activity and originate in the United Kingdom.

4. Exceptional operating items

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Exceptional operating items – cost of sales:		
Direct costs of volcanic ash cloud	10,275	-
Aircraft related exceptionals	14,500	-
Restructuring	292	-
Costs associated with Skyservice liquidation	800	-
	<u>25,867</u>	<u>-</u>
Exceptional operating items – operating expenses:		
Restructuring	-	4,130
Other exceptional operating items	187	9,991
	<u>187</u>	<u>14,121</u>
Total exceptional operating items	<u><u>26,054</u></u>	<u><u>14,121</u></u>

The direct costs associated with the volcanic ash cloud in April 2010 included additional accommodation and subsistence costs for customers stranded in resort and the costs of customer repatriation when the airspace was eventually re-opened.

Aircraft related exceptionals relate to an onerous lease on two aircraft held on operating leases, where the income generated from the anticipated flying program is not sufficient to cover the costs of the leases.

Skyservice are a Canadian company from whom the Company had planned to lease aircraft for the summer season. Skyservice was placed in court-appointed receivership on 31 March 2010 meaning that the Company had to lease the aircraft from a different company at short notice, resulting in inflated lease costs.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

5. Operating expenses

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Administrative expenses including exceptional items	116,626	106,158
	<u>116,626</u>	<u>106,158</u>

Included in the above is £25,745,000 gain relating to the movement in the fair value of hedges (2009 £49,658,000 loss)

6 Finance income

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
External bank and other interest receivable	2,462	1,208
Interest receivable from Group companies	101	240
Expected return on pension plan assets (see note 24)	16,534	16,554
	<u>19,097</u>	<u>18,002</u>

7. Finance costs

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Bank interest payable	(516)	(374)
Interest payable to Group companies	(960)	(4,260)
Interest costs on pension plan liabilities (see note 24)	(18,949)	(16,682)
Finance costs in respect of finance leases	(5,093)	(7,189)
	<u>(25,518)</u>	<u>(28,505)</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

8. Profit/(loss) before tax

Profit/(loss) before tax has been arrived at after charging/(crediting)

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Net foreign exchange (gain)/loss	(14,843)	10,705
Movement on fair value of currency hedges	28,321	32,637
Movement on fair value of fuel hedges	(55,398)	15,764
Movement on fair value of interest hedges	1,332	1,258
Depreciation of property, plant and equipment – owned assets	5,369	13,628
Depreciation of property, plant and equipment – held under finance leases	28,289	8,468
Amortisation of intangible assets	356	176
(Profit) / loss on disposal of property, plant and equipment	(214)	29
Operating lease rentals payable – hire of plant and machinery	106,638	75,829
Exceptional operating items (see note 4)	26,054	14,121
Staff costs (note 9)	3,777	4,523
Auditors' remuneration for audit services (see below)	68	95

Auditors' remuneration is paid centrally. Amount payable to PricewaterhouseCoopers LLP and their associates by the Company in respect of non-audit services are disclosed in the financial statements of Thomas Cook Group plc

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

9. Staff costs

The average monthly number of employees (including executive directors) was

By Activity	Year ended 30 September 2010 Number	Year ended 30 September 2009 Number
Management and administration	75	88
Flight Deck and Cabin Crew	1	15
	<u>76</u>	<u>103</u>
	£'000	£'000
Their aggregate remuneration comprised		
Wages and salaries	3,158	3,912
Social security costs	386	387
Other pension costs	233	224
	<u>3,777</u>	<u>4,523</u>

Operational flight deck and cabin crew are employed by a subsidiary company

10. Tax

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Analysis of tax credit in the year		
Current tax		
Tax charge for the year	-	580
Adjustment in respect of prior years	-	2,184
Total current tax	<u>-</u>	<u>2,764</u>
Deferred tax		
Tax charge/(credit) for the year	6,898	(13,217)
Adjustment in respect of prior years	2,928	(29)
Total deferred tax	<u>9,826</u>	<u>(13,246)</u>
Total tax charge/(credit)	<u>9,826</u>	<u>(10,482)</u>

Corporation tax is calculated at 28% (2009 28%) of the estimated assessable profit for the year

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

10 Tax (continued)

The tax charge/(credit) on the Company's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the loss of the Company as follows

	2010 £'000	2010 %	2009 £'000	2009 %
Profit/(loss) before tax	<u>31,244</u>	<u>100</u>	<u>(29,618)</u>	<u>100</u>
Expected tax charge/(credit) at the UK corporation tax rate of 28% (2009 28%)	8,748	28	(8,293)	28
Tax effect of expenses that are not deductible	27	-	70	-
Adjustments in respect of prior years	2,928	9	2,155	(7)
Transfer pricing adjustments	-	-	580	(2)
Group relief received for nil consideration	(718)	(2)	-	-
Non-taxable income	(154)	-	-	-
Deferred tax effect of reduction in the main rate of corporation tax from 28% to 27% from 1 April 2011	90	-	-	-
Deferred tax not recognised	<u>(1,095)</u>	<u>(4)</u>	<u>(4,994)</u>	<u>17</u>
Tax charge/(credit) and effective tax rate for the year	<u>9,826</u>	<u>31</u>	<u>(10,482)</u>	<u>35</u>

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 and the effect of this change has been to reduce the deferred tax by £877,000 as at 30 September 2010.

The proposed reduction of the main rate of corporation tax in the UK by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

11. Property, plant and equipment

	Fixtures Fittings and Equipment £'000	Motor Vehicle £'000	Aircraft and Spares £'000	Total £'000
Cost or valuation				
At 1 October 2008	6,100	100	443,957	450,157
Additions	-	-	22,710	22,710
Reclassifications	(3,306)	-	3,306	-
Disposals	(103)	-	(4,812)	(4,915)
At 1 October 2009	2,691	100	465,161	467,952
Additions	-	-	20,770	20,770
Disposals	-	-	(31,807)	(31,807)
At 30 September 2010	2,691	100	454,124	456,915
Accumulated depreciation and impairment				
At 1 October 2008	4,927	100	184,752	189,779
Charge for the year	214	-	21,882	22,096
Reclassification	(3,087)	-	3,087	-
Disposals	(75)	-	(4,743)	(4,818)
At 1 October 2009	1,979	100	204,978	207,057
Charge for the year	202	-	33,456	33,658
Disposals	-	-	(30,309)	(30,309)
At 30 September 2010	2,181	100	208,125	210,406
Carrying amount				
At 30 September 2010	510	-	245,999	246,509
At 30 September 2009	712	-	260,183	260,895
At 30 September 2008	1,173	-	259,205	260,378

The carrying amount of the Company's aircraft and spares includes an amount of £221.3m (2009 £204.9m) in respect of assets held under finance leases

At 30 September 2010, the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £12.5m (2009 £2.9m)

Depreciation of £33.7m has been charged to administrative expenses (2009 £22.9m)

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

12. Intangible assets

	Goodwill £'000	Licences £'000	Total £'000
Cost			
At 1 October 2008	37,606	-	37,606
Additions	-	774	774
At 1 October 2009	37,606	774	38,380
Additions	-	230	230
At 30 September 2010	37,606	1,004	38,610
Accumulated amortisation			
At 1 October 2008	-	-	-
Amortisation charge	-	176	176
At 1 October 2009	-	176	176
Amortisation charge	-	356	356
At 30 September 2010	-	532	532
Net book value			
At 30 September 2010	37,606	472	38,078
At 30 September 2009	37,606	598	38,204
At 30 September 2008	37,606	-	37,606

In accordance with the accounting standards, the directors annually test the carrying value of goodwill for impairment. At 30 September 2010 the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the present value of future cash flows derived from those assets.

The review determined that there had been no impairment in the UK airlines and hence the intangible assets in the Company were considered to be unimpaired.

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

Amortisation of £356,269 has been charged to administrative expenses (2009: £176,282).

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

13. Investments

	Subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost			
At 1 October 2008	48,400	14,641	63,041
Additions	-	1,245	1,245
Repayment	-	(2,139)	(2,139)
At 1 October 2009	48,400	13,747	62,147
Additions	-	1,192	1,192
Repayment	-	(1,075)	(1,075)
At 30 September 2010	<u>48,400</u>	<u>13,864</u>	<u>62,264</u>
Impairment			
At 1 October 2008, 1 October 2009 and 30 September 2010	-	-	-
Net book value			
At 30 September 2010	<u>48,400</u>	<u>13,864</u>	<u>62,264</u>
At 30 September 2009	<u>48,400</u>	<u>13,747</u>	<u>62,147</u>
At 30 September 2008	<u>48,400</u>	<u>14,641</u>	<u>63,041</u>

The directors believe that the carrying value of the investments is supported by their underlying net assets

Following the transfer of the trade and assets of Thomas Cook Airlines UK Limited into the Company on the 31 March 2008, the excess of the investment carrying value of the net assets of Thomas Cook Airlines UK Limited was transferred to goodwill

The Company has the following subsidiaries

Name	% ownership of ordinary shares	Country of incorporation	Principal activity
Thomas Cook Aircraft Engineering Limited	100	UK	Aircraft engineering services
Thomas Cook Airline Services Limited	100	Guernsey	Airline management services
Thomas Cook Airlines UK Limited	100	UK	Non-trading

The results of the subsidiaries for the year were as follows

Name	Net assets at 30 September 2010 £'000	Profit for year ending 30 September 2010 £'000
Thomas Cook Aircraft Engineering Limited	3,108	2,924
Thomas Cook Airline Services Limited	452	320
Thomas Cook Airlines UK Limited	47,394	-

Other investments comprises £13.9m in respect of the Company's investment as a member of Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises ordinary shares and loan notes carrying interest at 8% in the Airline Group.

The directors believe that the carrying value of the investments is supported by their underlying net assets

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

14. Inventories

	30 September 2010 £'000	30 September 2009 £'000
Goods held for resale	1,006	964
Consumables	7,520	5,954
	<u>8,526</u>	<u>6,918</u>

The cost of inventory recognised as an expense and included in cost of sales amounted to £7,637,000 (2009 £7,870,000)

15. Trade and other receivables

	30 September 2010 £'000	30 September 2009 £'000
Non-current assets		
Aircraft deposits	3,141	5,932
Maintenance reserves	32,424	30,721
	<u>35,565</u>	<u>36,653</u>
Current assets		
Trade receivables	19,581	12,940
Less provision for impairment of trade receivables	(421)	(498)
Trade receivables - net	19,160	12,442
Aircraft deposits	2,262	1,551
Other receivables and prepayments	33,513	29,299
Value Added Tax	15,919	9,196
Amounts owed by Group undertakings	116,268	91,056
	<u>187,122</u>	<u>143,544</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

15 Trade and other receivables (continued)

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Maintenance reserves are aged based on expected reclaim against maintenance events, in line with the ageing of the maintenance provisions.

	30 September 2010 £'000	30 September 2009 £'000
Movement in allowances for doubtful trade receivables		
At the beginning of the year	(498)	(903)
Additional provision for receivables impairment	(310)	(415)
Utilised	387	820
At the end of the year	<u>(421)</u>	<u>(498)</u>

As of 30 September 2010, trade receivables of £17,066,000 (2009 £10,804,000) were fully performing and therefore considered fully recoverable. No items that are fully performing have been renegotiated in the last year.

Trade receivables that are less than three months past due are not considered impaired. As of 30 September 2010, trade receivables of £1,854,000 (2009 £1,382,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default, and so are considered fully recoverable. The ageing analysis of these trade receivables is as follows:

	30 September 2010 £'000	30 September 2009 £'000
Up to 3 months	819	1,447
3 to 6 months	1,102	8
6 to 12 months	(86)	(25)
Over 12 months	19	(48)
	<u>1,854</u>	<u>1,382</u>

As of 30 September 2010, trade receivables of £661,000 (2009 £754,000) were impaired and provided for. The amount of the provision was £421,000 as of 30 September 2010 (2009 £498,000). The individually impaired receivables mainly relate to customers in unexpectedly difficult economic situations or to significantly aged balances. The ageing analysis of these trade receivables is as follows:

	30 September 2010 £'000	30 September 2009 £'000
Up to 3 months	-	(2)
3 to 6 months	172	203
6 to 12 months	181	275
Over 12 months	308	278
	<u>661</u>	<u>754</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

15. Trade and other receivables (continued)

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables, aircraft deposits and amounts owed by Group undertakings.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

16. Trade and other payables

	30 September 2010 £'000	30 September 2009 £'000
Current liabilities		
Trade payables	70,343	66,949
Other taxation and social security	3,248	2,633
Accruals and deferred income	30,836	50,728
Other payables	9,790	1,109
Amounts owed to Group undertakings	187,713	313,311
Amounts owed to Group undertakings – group corporation tax relief	42,679	42,679
	<u>344,609</u>	<u>477,409</u>
Non-current liabilities		
Accruals and deferred income	<u>1,617</u>	<u>781</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 29 days (2009: 27 days).

The amounts owed to Group undertakings are unsecured and payable on demand.

The directors consider that the carrying amount of trade payables approximates to their fair value.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

17 Cash and cash equivalents

	30 September 2010 £'000	30 September 2009 £'000
Short term bank deposits	116,460	305,239
Cash at bank and in hand	20	10
	<u>116,480</u>	<u>305,249</u>

For the purpose of the cash flow statement, cash and cash equivalents comprise deposits with banks, bank and cash balances and liquid investments. Bank loans are included in financial liabilities in current liabilities (see note 18). The carrying amount of these assets approximates their fair value.

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

18 Borrowings

	30 September 2010 £'000	30 September 2009 £'000
Due within one year or on demand:		
Bank loan	2,751	7,468
Finance lease obligations (note 19)	19,484	85,975
	<u>22,235</u>	<u>93,443</u>
Due after more than one year:		
Bank loan	2,063	-
Finance lease obligations (note 19)	54,021	22,253
	<u>56,084</u>	<u>22,253</u>

The bank loan is repayable in quarterly instalments, due to be fully repaid in February 2012.

The Company has £845.8m of undrawn borrowing facilities under the Thomas Cook Group plc facilities agreement to which the Company is a party. The facility expires in May 2015 and is subject to a floating rate of interest.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

19. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	30 September 2010	30 September 2009	30 September 2010	30 September 2009
	£'000	£'000	£'000	£'000
Amounts payable under finance leases				
Within one year	22,325	86,202	19,484	85,975
Between one and two years	24,649	4,784	22,696	4,293
Between two and five years	29,585	18,760	27,245	17,960
Greater than five years	4,295	-	4,080	-
	<u>80,854</u>	<u>109,746</u>	<u>73,505</u>	<u>108,228</u>
Less future finance charges	(7,348)	(1,518)	-	-
Present value of lease obligations	<u>73,505</u>	<u>108,228</u>	<u>73,505</u>	<u>108,228</u>
Less Amount due for settlement within 12 months (shown under current liabilities)			(19,484)	(85,975)
Amount due for settlement after 12 months			<u>54,021</u>	<u>22,253</u>

Finance leases principally relate to aircraft and aircraft spares

The average lease term at inception was 12.6 years and the average remaining lease term is 2 years (2009: 0.3 years). For the year ended 30 September 2010 the average effective borrowing rate was 4.30% (2009: 3.39%). Interest rates on £2.1m of US Dollar lease obligations are fixed at an average of 6.65% (2009: £9.5m at 5.76%). Interest rates on the balance of lease obligations are floating and are fixed quarterly or six-monthly in advance based on US LIBOR. No arrangements have been entered into for contingent rental payments.

The Directors consider that the fair value of the Companies finance lease obligations approximates their carrying amount.

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

No arrangements have been entered into for contingent rental payments.

Sub Lease rentals receivable

During the year, 5 aircraft (2009: 5 aircraft) held under finance leases were sub-let on operating leases for the whole or part of the year. Details of income receivable under operating sub-leases are provided in note 29.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

20. Derivative financial instruments

Currency and fuel derivatives

The Company utilises currency and fuel derivatives to hedge significant future transactions and cash flows and fuel price risk. The Company is a party to a variety of foreign currency and fuel forward contracts and options in the management of its exchange rate and fuel price exposures. The currency instruments purchased are primarily denominated in the currencies of the Company's principal markets. The contracts are between the Company and Thomas Cook Group Treasury Limited, a fellow Group subsidiary, which manages the interest rate, fuel and currency exposure of the Group. These internal contracts do not qualify as cash flow hedges and hence any gain/loss on the fair value of these contracts is immediately recognised in the Income statement.

All non-derivative financial assets are classed as loans and receivables for the purposes of IFRS 7, "Financial instruments: Disclosures", and all non-derivative financial liabilities are classed as financial liabilities at amortised cost.

These arrangements are designed to address significant exchange and fuel price exposures for a period of 12 months, and are renewed on a revolving basis as required.

The Company's currency derivatives are recorded at their fair value at the balance sheet date as shown below.

	Net asset/(liability) 30 September 2010 £'000	Net asset/(liability) 30 September 2009 £'000
Currency hedges	(3,624)	24,697
Fuel hedges	15,194	(40,204)
Interest rate hedges	(1,731)	(399)
Asset/(liability)	<u>9,839</u>	<u>(15,906)</u>

The net gain of £25,745,000 (2009: £49,659,000 loss) is recognised in the income statement in the year ended 30 September 2010 – see note 8.

21. Financial risk

The Company is subject to risks related to changes in interest rates, exchange rates, fuel prices, counterparty credit and liquidity within the framework of its business operations. Details of the nature of these risks and the policies and processes that the Company operates to manage them and mitigate any financial impact are set out in the Directors' Report.

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

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

21 Financial risk (continued)

Interest rate risk	Year ended 30 September 2010		Year ended 30 September 2009	
	Impact on profit before tax £'000	Impact on net equity £'000	Impact on profit before tax £'000	Impact on net equity £'000
1% increase in interest rates	(723)	(723)	(1,020)	(1,020)
1% decrease in interest rates	723	723	1,020	1,020

Exchange rate risk	Year ended 30 September 2010		Year ended 30 September 2009	
	Impact on profit before tax £'000	Impact on net equity £'000	Impact on profit before tax £'000	Impact on net equity £'000
5% strengthening of euro	6,546	6,546	6,150	6,150
5% weakening of euro	(6,546)	(6,546)	(6,276)	(6,276)
5% strengthening of US dollar	40,587	40,587	27,051	27,051
5% weakening of US dollar	(36,722)	(36,722)	(24,474)	(24,474)

Fuel price risk	Year ended 30 September 2010		Year ended 30 September 2009	
	Impact on profit before tax £'000	Impact on net equity £'000	Impact on profit before tax £'000	Impact on net equity £'000
20% increase in fuel price	53,253	53,253	22,562	22,562
20% decrease in fuel price	(52,617)	(52,617)	(22,452)	(22,452)

Liquidity risk

All financial liabilities apart from obligations under finance leases fall due in less than 12 months and hence there is no difference between their undiscounted future cash flow amount and their carrying value or fair value that they have been presented at within these financial statements

Counterparty credit risk

The Company is exposed to credit risk in relation to deposits and trade and other receivables. The maximum exposure in respect of each of these items at the balance sheet date is their carrying value. The Company's approach to credit risk in respect of trade and other receivables is explained in note 15.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

22 Deferred tax

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	30 September 2010 £'000	30 September 2009 £'000
Deferred tax assets	24,447	33,386
Net deferred tax assets	24,447	33,386

The gross movement on the deferred income tax account is as follows:

	30 September 2010 £'000	30 September 2009 £'000
At the beginning of the year	33,386	4,009
Income statement (charge)/credit	(9,826)	13,246
Credited direct to equity	887	16,131
At the end of the year	24,447	33,386

Movements on the deferred taxation assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax liabilities	Accelerated tax depreciation £'000	Tax losses £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 October 2008	-	-	-	(6,843)	(6,843)
Credited to the income statement	-	-	-	6,843	6,843
At 1 October 2009	-	-	-	-	-
Credited to the income statement	-	-	-	-	-
At 30 September 2010	-	-	-	-	-

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

22. Deferred tax (continued)

Deferred tax assets	Accelerated tax depreciation £'000	Tax losses £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 October 2008	1,369	-	9,258	225	10,852
Credited/(charged) to the income statement	544	10,942	(5,039)	(44)	6,403
Credited to equity	-	-	16,131	-	16,131
At 1 October 2009	1,913	10,942	20,350	181	33,386
Credited/(charged) to -					
- income statement	684	(10,170)	(349)	99	(9,736)
- equity	-	-	1,674	-	1,674
Effect of change in tax rate -					
- income statement	(66)	(28)	12	(8)	(90)
- equity	-	-	(787)	-	(787)
At 30 September 2010	<u>2,531</u>	<u>744</u>	<u>20,900</u>	<u>272</u>	<u>24,447</u>

At the balance sheet date, the Company had unused tax losses of £2.8m (2009 £39.1m) and other deductible short term timing differences of £118.9m (2009 £114.9m) available for offset against future profits. No deferred tax asset has been recognised in respect of deductible short term timing differences of £31.2m (2009 £34.8m) due to the unpredictability of future profit streams.

23. Provisions

	Maintenance Reserves £'000	Other Provisions £'000	Total £'000
At 1 October 2009	126,361	241	126,602
Provisions created in the year	38,935	5	38,940
Utilisation of provisions	(26,964)	(225)	(27,189)
Provisions released	(4,675)	-	(4,675)
Foreign exchange gain	1,915	-	1,915
At 30 September 2010	<u>135,572</u>	<u>21</u>	<u>135,593</u>
Included in current liabilities			50,507
Included in non-current liabilities			85,086
			<u>135,593</u>

The maintenance reserves relate to maintenance on leased aircraft and spares used by the Company in respect of leases, which include contractual return conditions. This expenditure arises at different times over the life of the aircraft. The provision is based on planned expenditure using the most current information available.

Other provisions relate to restructuring of operations and amounts are expected to be utilised within 12 months of the balance sheet date.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

24 Pensions

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

Scheme members are employed by both the Company and its subsidiaries. As sponsoring company the scheme assets and liabilities are accounted for in the accounts of the Company. The income statement charge in the Company disclosed in note 9 represents the current service cost relating to the employees of the Company.

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

	2010	2009
Discount rate	5.00%	5.50%
Inflation rate	3.25%	3.50%
Expected return on plan assets	6.09%	6.55%
Future salary increases	4.75%	4.75%
Future pension increases	3.50%	3.50%

The mortality assumptions used in arriving at the present value of obligations at 30 September 2010 are based on a life expectancy for members currently aged 60 of 27.5 years for men and 28.8 years for women.

The Thomas Cook UK Pension Plan has been closed to new entrants since April 2003. Employees who have joined since that date participate in a new defined contribution scheme.

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

	Thomas Cook Pension Plan	Inspirations Pension Plan	Total	Total
	2010	2010	2010	2009
	£'000	£'000	£'000	£'000
Current service cost	7,051	64	7,115	6,088
Interest cost on scheme liabilities	17,927	1,022	18,949	16,682
Expected return on plan assets	(15,644)	(890)	(16,534)	(16,554)
Total	9,334	196	9,530	6,216

Of the total charge, current service costs were recognised in operating expenses. Interest costs and expected return on assets are recognised in finance costs and finance income respectively.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

24. Pensions (continued)

The amounts in the balance sheet are determined as follows

	<i>Thomas Cook Pension Plan</i>	<i>Inspirations Pension Plan</i>	<i>Total</i>	<i>Total</i>
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>2009</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Present value of funded obligations	(293,121)	(20,309)	(313,430)	(272,291)
Fair value of plan assets	221,089	14,933	236,022	199,613
Liability in the balance sheet	(72,032)	(5,376)	(77,408)	(72,678)

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

The actual return on scheme assets attributable to the Company was £28.6m gain (2009: £10.2m gain). Actuarial gains and losses have been reported in the statement of recognised income and expense.

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

	<i>Thomas Cook Pension Plan</i>	<i>Inspirations Pension Plan</i>	<i>Total</i>	<i>Total</i>
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>2009</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 October	(253,744)	(18,547)	(272,291)	(192,285)
Transferred at 1 November	-	-	-	-
Current service cost	(7,051)	(64)	(7,115)	(6,088)
Interest cost	(17,927)	(1,022)	(18,949)	(16,682)
Contributions by plan participants	(1,395)	(6)	(1,401)	(1,445)
Actuarial losses	(20,159)	(811)	(20,970)	(63,079)
Benefits paid	6,480	141	6,621	6,388
Expenses paid	675	-	675	900
At 30 September	(293,121)	(20,309)	(313,430)	(272,291)

Changes in the fair value of plan assets are as follows

	<i>Thomas Cook Pension Plan</i>	<i>Inspirations Pension Plan</i>	<i>Total</i>	<i>Total</i>
	<i>2010</i>	<i>2010</i>	<i>2010</i>	<i>2009</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 October	186,639	12,974	199,613	180,726
Transferred at 1 November	-	-	-	-
Expected return on plan assets	15,644	890	16,534	16,554
Actuarial gains/(losses)	11,606	419	12,025	(6,377)
Employer contributions	12,960	785	13,745	14,553
Employee contributions	1,395	6	1,401	1,445
Benefits paid	(6,480)	(141)	(6,621)	(6,388)
Expenses paid	(675)	-	(675)	(900)
At 30 September	221,089	14,933	236,022	199,613

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

24 Pensions (continued)

During 2006, a special one-off contribution payment was made by Thomas Cook UK Limited to the pension fund amounting to £85.0m in order to offset actuarial losses. In the subsequent five years, an amount totalling £4.0m is to be paid to the pension fund on a quarterly basis. Thomas Cook Group companies in the UK are expected to make aggregate contributions to its funded defined benefit schemes of £39.9m during the year commencing 1 October 2010.

The fair value of Thomas Cook Pension Plan scheme assets at the balance sheet is analysed as follows:

	<i>Expected Return</i> %	<i>2010</i> %	<i>Expected Return</i> %	<i>2009</i> %
Equity	7.5	41.7	7.6	43.8
Debt securities	4.2	28.9	4.3	30.4
Property	5.86	10.2	6.1	11.6
Other	6.73	19.2	7.3	14.2

The fair value of Inspirations Pension Plan scheme assets at the balance sheet is analysed as follows:

	<i>Expected Return</i> %	<i>2010</i> %	<i>Expected Return</i> %	<i>2009</i> %
Equity	7.5	78.9	7.3	75.3
Debt securities	3.5	21.1	5.1	23.2
Property	-	-	-	-
Other	-	-	0.2	1.5

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

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

The cumulative net actuarial losses recognised in the Statement of comprehensive income and expense at 30 September 2010 was £95.9m (2009: £87.0m).

Defined contribution pension scheme

There are a number of defined contribution schemes in the Company, the principal ones being the MyTravel UK Group scheme which relates to employees of MyTravel Group plc and various of its UK subsidiary companies and the new scheme for Thomas Cook UK Limited employees joining since April 2003.

The total charge for the year in respect of these and other defined contribution schemes, including liabilities in respect of insured benefits relating to workers' compensation arrangements, amounted to £233,000 (2009: £224,000).

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

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

25. Called-up share capital

	30 September 2010 £'000	30 September 2009 £'000
Authorised, allotted, issued and fully paid		
105,437,500 ordinary shares of £1 each	<u>105,438</u>	<u>105,438</u>

The Company has one class of ordinary shares which carry no right to fixed income

The Company is not subject to any externally imposed capital requirement. The parent company's objectives when managing capital are to safeguard the UK Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the UK Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, sell assets to reduce debt or issue new shares. The capital structure of the UK Group consists of debt, cash and cash equivalents.

26. Retained earnings

	£'000
Balance at 1 October 2008	44,947
Loss for the year	(19,136)
Actuarial loss on defined benefit pension scheme	(69,456)
Movement on deferred tax relating to defined benefit pension scheme	16,131
Balance at 1 October 2009	(27,514)
Profit for the year	21,418
Actuarial loss on defined benefit pension scheme	(8,945)
Movement on deferred tax relating to defined benefit pension scheme	887
Balance at 30 September 2010	(14,154)

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

27. Notes to the cash flow statement

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Operating profit/(loss)	37,115	(19,115)
Adjustments for		
(Gain)/loss on derivatives	(25,745)	49,658
Depreciation of property, plant and equipment	33,658	22,096
Amortisation of licences	356	176
(Profit)/loss on disposal of property, plant and equipment	(214)	29
Other non-cash items	5,484	26,741
Increase in provisions	4,777	3,144
Operating cash flows before movements in working capital	55,431	82,729
Increase in inventories	(1,608)	(531)
Increase in receivables	(17,278)	(2,907)
(Decrease)/increase in payables	(6,366)	4,486
Movements in amounts owed to/by Group companies	(150,810)	58,111
Difference between pension contributions and current service costs	(6,630)	(8,465)
Net cash (outflow)/inflow from operating activities	(127,261)	133,423

Cash and cash equivalents comprise cash at bank, overdraft, and other short-term highly liquid investments with a maturity of three months or less

28. Contingent liabilities

The Company has given guarantees and counter indemnities to banks totalling £70,013,858 (2009 £72,010,646) in respect of total bonding, letter of credit and guarantee facilities. The Company is a guarantor of facilities utilised by other subsidiaries of the Group. Potential liabilities at 30 September 2010 were £134,010,523 (2009 £167,431,939).

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

29. Operating lease arrangements

The Company as lessee

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Minimum lease payments under operating leases recognised in income for the year	<u>100,242</u>	<u>75,829</u>

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

	30 September 2010 £'000	30 September 2009 £'000
Within one year	82,149	92,293
In the second to fifth years inclusive	102,522	192,044
After five years	-	2,368
	<u>184,671</u>	<u>286,705</u>

Operating lease payments represent rentals payable by the Company for certain of its aircraft, aircraft spares and office properties

No arrangements have been entered into for contingent rental payments

The Company as lessor

At the balance sheet date, the Company had contracted with lessees for the following future minimum lease payments

	30 September 2010 £'000	30 September 2009 £'000
Within one year	3,339	1,679
In the second to fifth years inclusive	-	-
	<u>3,339</u>	<u>1,679</u>

Operating lease payments principally relate to rentals payable for aircraft and spares. Aircraft leases are typically negotiated for an average term of 10 years.

No arrangements have been entered into for contingent rental payments

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

30. Share based payments

Equity-settled share option scheme

The parent company (Thomas Cook Group plc) operates five equity-settled share-based payment schemes, as outlined below. The total expense recognised during the year in respect of equity-settled share-based payment transactions was £314,000 (2009: £397,000). From 1 November 2007 share based payment charges are cash settled by the Company through an intercompany recharge. As such these amounts are no longer credited back through reserves.

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

Executive Directors and senior executives of the Company are granted nil cost options to acquire, or contingent share awards over, the ordinary shares of Thomas Cook Group plc. Each award will vest three years after the date of the award, to the extent the performance targets have been met. The performance targets for each award are based on adjusted Earnings Per Share (EPS) and Total Shareholder Return (TSR). Subject to the performance targets being met and the participant still being employed by the company, the options are exercisable up to ten years after the date of grant.

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

Executive Directors and key executives purchase shares in Thomas Cook Group plc using a proportion of their net bonus (Lodged Shares). Participants may, at the end of the three year performance period, receive 3.5 matching shares (awarded as nil-cost options or contingent share awards) for each Lodged Share purchased, subject to the achievement of the performance targets. The performance targets for the awards made in 2008 and 2009 are based on adjusted EPS and Return On Invested Capital (ROIC). The performance targets for the 2010 awards are based on adjusted EPS, TSR and ROIC. Subject to the performance targets being met and the participant still being employed by the company, the options are exercisable up to ten years after the date of the grant.

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

Eligible employees were offered options to purchase shares in Thomas Cook Group plc by entering into a three or four -year savings contract. The option exercise price was set at a 10% (2010 grant) or 20% (2008 grant) discount to the market price at the offer date. Options are exercisable during the 6 months after the end of the savings contract.

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

Eligible UK tax-paying employees are offered the opportunity to purchase shares (Partnership Shares) in Thomas Cook Group plc by deduction from their monthly gross pay. For every ten Partnership Shares an employee purchases, the Company purchases one Matching Share on their behalf. Both Partnership and Matching Shares are held by Equiniti Share Plan Trustees Limited. As at 30 September 2010, 630 (2009: 360) Matching Shares were held by the Trustee.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

30. Share based payments (continued)

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

	2010			
	PSP	COIP	SAYE	CSOSP
Outstanding at beginning of year	681,061	236,112	29,075	97,261
Granted	248,611	26,638	65,578	-
Exercised	(59,902)	-	-	-
Cancelled	-	-	(7,846)	-
Forfeited	(62,580)	-	(1,263)	(4,308)
Outstanding at end of year	807,190	262,750	85,544	92,953
Exercisable at end of year	22,616	-	-	-
Exercise price	Nil	Nil	1 81-2 15	1 88-2 22
Average remaining contractual life	8 4	8 3	2 8	8 3

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2010 was £2.43

	2009			
	PSP	COIP	SAYE	CSOSP
Outstanding at beginning of year	359,825	112,128	39,391	-
Granted	384,564	150,829	-	100,133
Cancelled	-	-	(7,103)	-
Forfeited	(63,328)	(26,845)	(3,213)	(2,872)
Outstanding at end of year	681,061	236,112	29,075	97,261
Exercisable at end of year	-	-	-	-
Exercise price	Nil	Nil	2 15	1 88-2 22
Average remaining contractual life	8 8	9 2	2 3	9 3

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

	2010		
	PSP	COIP	SAYE
Share price at measurement date	2.33	2.34	2.01
Exercise price (£)	Nil	Nil	1.81
Expected volatility (%)	50	50	50
Expected volatility of comparator group (%)	26-121	26-121	n/a
Expected correlation with comparator group (%)	32	32	n/a
Option life (years)	3	3	3.3
Risk free rate (%)	2.0	2.0	1.58
Expected dividend yield (%)	6	6	6
Weighted average fair value at date of grant	1.62	1.63	0.46

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

30. Share based payments (continued)

	2009		
	PSP	COIP	CSOSP
Share price at measurement date	1 91	1 99	1 90
Exercise price (£)	Nil	Nil	1 90
Expected volatility (%)	44	45	44
Expected volatility of comparator group (%)	24-84	n/a	24-84
Expected correlation with comparator group (%)	34	n/a	34
Option life (years)	3	3	3
Risk free rate (%)	2 0	2 1	2 0
Expected dividend yield (%)	7	6	7
Weighted average fair value at date of grant	1 26	1 65	0 36

Expected volatility has been based on the historic volatility of the shares of Thomas Cook Group plc and the shares of other companies in the same or related sectors

31. Ultimate controlling party

The Company is a subsidiary of Thomas Cook Group UK Limited, a company incorporated in England and Wales

Thomas Cook Group plc, incorporated in Great Britain, is the Company's ultimate parent company

The smallest and largest group in which the results of the Company are consolidated is that of which Thomas Cook Group plc is the parent company. The consolidated accounts of Thomas Cook Group plc may be obtained from The Thomas Cook Business Park, Coningsby Road, Peterborough, Cambridgeshire, PE3 8SB

32. Events after the balance sheet date

Aircraft disposal

During February 2011, prior to signing the Company accounts, a decision was taken at UK Board level to scrap one of the Aircraft that was held within property, plant and equipment. The net book value at the date of signing the accounts was £10,032,000. Management are still undertaking a review to determine the preferred method of disposals, and have not yet calculated the financial impact of this decision.

Aircraft fleet replacement

The aircraft operated by the company forms part of the Thomas Cook Group fleet. The Group has identified significant operational savings, particularly from maintenance and improved fuel efficiency, that can be achieved by renewing and harmonising its narrow bodied aircraft into a common fleet. Following a comprehensive review, the Group has selected the Airbus 320 family of aircraft. Accordingly, the Group will begin a five year narrow body aircraft replacement programme, starting in December 2012 and phased in line with the planned retirement of the existing fleet. For more information please refer to page 119 of the Thomas Cook Group plc 2010 statutory accounts.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

33. Related party transactions

Transactions between the Company and other members of the Thomas Cook Group are disclosed below

Trading transactions and balances	Sale of goods		Purchase of goods		Amounts owed by related parties		Amounts owed to related parties	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Parent company	-	-	-	-	2,609	-	-	-
Subsidiary companies	-	-	287,645	277,287	10,184	15,853	82,877	80,601
Other group companies	846,772	828,930	9,553	45,041	103,475	75,203	104,836	232,710
Total	<u>846,772</u>	<u>828,930</u>	<u>297,198</u>	<u>322,328</u>	<u>116,268</u>	<u>91,056</u>	<u>187,713</u>	<u>313,311</u>

Sales of goods to related parties were made at arms length prices. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationships between the parties. None of the balances are secured, and balances are settled periodically through further trading and bank transfers.

In addition to the above, there is an amount owed to the parent company in respect of group corporation tax relief of £42,679,000 (2009 £42,679,000).

The Company also paid a net management charge to the UK segment of Thomas Cook Group plc of £21,032,000 (2009 £13,111,000) in respect of services provided by the UK Group, including information technology, legal, human resources, finance and an apportionment of the cost of outsourcing certain support services.

Transactions in derivative instruments are at market rates.

Remuneration of key management personnel

Key management compensation

The aggregate amounts of key management compensation are set out below

	30 September 2010 £'000	30 September 2009 £'000
Salaries and short-term employment benefits	1,932	1,570
Post employment benefits	165	45
Termination benefits	-	-
	<u>2,097</u>	<u>1,615</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2010

33. Related party transactions (continued)

For the year ended 30 September 2010, the directors are of the opinion that the key management of the Company comprised the statutory directors of the Company together with those members of the UK Executive team who are not also statutory directors. These persons have authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. For the prior year, the statutory directors were considered to represent the key management personnel. At 30 September 2010, key management comprised 21 people (2009: 11 people).

Directors' emoluments

The aggregate emoluments of the directors of the Company are set out below:

	30 September 2010 £'000	30 September 2009 £'000
Aggregate emoluments in respect of qualifying services	1,336	1,182
Post employment benefits	109	23
Termination benefits	-	-
	<u>1,445</u>	<u>1,205</u>

Six directors are included in the defined contribution scheme for 2010, and two in the final salary scheme (2009: six and two respectively).

The amounts in respect of the highest paid director are as follows:

	30 September 2010 £'000	30 September 2009 £'000
Aggregate emoluments in respect of qualifying services	316	232
Post employment benefits	23	2
Termination benefits	-	-
	<u>339</u>	<u>234</u>

Directors' transactions

There were no loans, quasi-loans or other transactions with directors (or other key management personnel) which would need to be disclosed under the requirements of Schedule 6 of the Companies Act or IAS 24, "Related party disclosures".