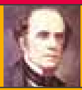
Thomas Cook Group plc
Annual Report & Accounts 2007

Creating millions of travel dreams for 167 years

TRAVELLING THROUGH THIME

1808  Thomas Cook is born on 22 November in Melbourne, Derbyshire.

1829 George Stephenson's steam locomotive, the Rocket, wins the Rainhill trials.

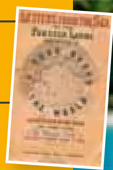
1841 Thomas Cook organises his first excursion, a rail journey from Leicester to a temperance meeting in Loughborough.

1845 Thomas Cook conducts first trip for profit. For 15 shillings first class and 10 shillings second class, you could travel to Liverpool from Leicester by train.

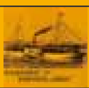
1865  Thomas Cook opens his first high street shop in Fleet Street, London.

1867 Henry Giffard installs a huge captive balloon for 20 passengers at the World Exposition in Paris.

1872 Thomas Cook organises and leads the first round-the-world tour. He is away from home for 222 days and covers more than 25,000 miles.

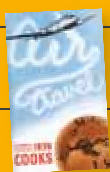


1873 Jules Verne publishes Around the World in 80 Days.

1886  John Mason Cook, son of Thomas Cook, launches his new fleet of luxurious Nile steamers.

1903 The Wright brothers make the first powered flight.

1919 Thomas Cook & Son is the first travel agent to advertise pleasure trips by air.



1925 1.5 million manual workers in Britain have paid holidays.

1939 11 million manual workers in Britain have paid holidays. Holidays by air on specially chartered aircraft to the French Riviera are included in Cook's summer brochure for the first time.

1948 Thomas Cook & Son becomes state-owned under British Transport Holding Company.

1969 Man walks on the moon.

1972 David Crossland purchases Pendle Travel Services travel agency. A second travel agency business is acquired by Albert and Ivy Roberts who had registered it using their initials, A.I.R. Tours. These businesses are the kernel of MyTravel.

Thomas Cook is privatised and bought by consortium of Midland Bank, Trust House Forte and the Automobile Association.

1987 Airtours plc is floated on the London Stock Exchange.

1997 Thomas Cook becomes the first UK retail travel agency to offer customers a way to buy holidays over the internet.

2001 Thomas Cook is acquired by C&N Touristic AG, which changes its name to Thomas Cook AG.

2002 Airtours plc becomes MyTravel Group plc.

2007 12 February – MyTravel Group plc and Thomas Cook AG announce plans to merge.

19 June – MyTravel Group plc and Thomas Cook AG merger is completed, forming Thomas Cook Group plc.

24 December – Thomas Cook Group plc enters FTSE 100 index.

UK & IRELAND

CONTINE

MAINSTREAM

DISTRIBUTION

INDEPENDENT

ENTAL EUROPE	NORTHERN EUROPE	NORTH AMERICA
PEGASE Thomas Cook Neckermann Reisen aquatour BUCHER LAST MINUTE	SPIES VING Tjæreborg	Sunquest ALBA Tours
Thomas Cook Neckermann Reisen	SPIES VING Tjæreborg	ABC CORPORATE SERVICES BelAirTravel.com Go places... for less. The Cruise Store
Thomas Cook Neckermann Reisen Vrij Uit Condor www.condor.com	VING MyTravel tango! GLOBETROTTER Tjæreborg	holidayhouse NETWORK EncoreCruise escapes Lifestyle VACATION INCENTIVES

Everyone knows Thomas Cook. It's the oldest, most respected name in the travel business.

Now, as the newly-formed Thomas Cook Group, we are building on our unrivalled heritage. We are creating an international company that our 30,000 employees are proud to work for and one that is ideally placed to serve a world of discerning customers and deliver outstanding growth to our shareholders.

It is less than a year since we began the merger with MyTravel to form the Thomas Cook Group. In that brief time, we have announced higher than anticipated operating profits of €375.3 million, fully integrated the two businesses, identified at least €200 million in synergies, laid the groundwork for a major share buy-back programme and been elevated to the ranks of the FTSE 100.

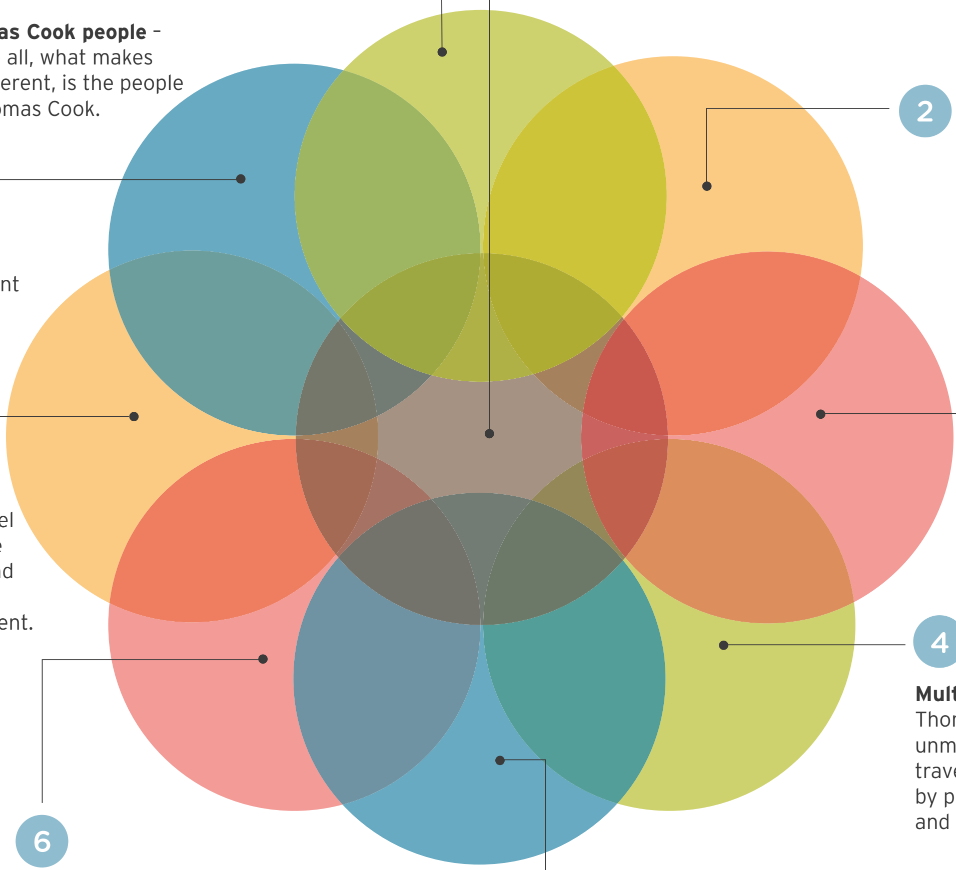
Clearly, the merger that began on 12 February, 2007 and saw completion just four months later was the right decision for all concerned. In this, our first Annual Report, we provide the background to those events and explain how we'll maintain the momentum of our first year by building on the Thomas Cook Group's early and demonstrable success.

Manny Fontenla-Novoa
Group Chief Executive Officer

THOMAS COOK BY NUMBERS

2,000 destinations + 30,000 staff + 97 aircraft + 3,000 shops = Creating 19 million travel dreams per year

NINE DISTINCT ADVANTAGES



1 **A flying start** – The new Thomas Cook Group has made rapid progress towards target operating profit of at least €620 million in 2009/10.

2 **Great brand heritage** – Founded 167 years ago, Thomas Cook, the pioneer of popular leisure travel, is one of the world's best known travel brands.

3 **Strong financial position** – Net funds of €357 million and net assets of €3 billion at 31 October 2007.

4 **Multi-channel distribution** Thomas Cook offers an unmatched choice of leisure travel on the internet, by phone, through television and in our network of shops.

5 **Unique financial services business** – Thomas Cook is well known for travel-related financial services – foreign exchange, travel insurance and now credit cards.

6 **A clear strategy** – Improve performance in mainstream tour operating, make significant advances in independent travel, travel-related financial services and emerging markets, and grow overall revenue and profit.

7 **Flexible business model** – Our asset-light business model means we have the flexibility to respond to changes in the business environment.

8 **The customers' choice** – 19 million people in 15 different countries choose Thomas Cook for their holidays.

9 **Thomas Cook people** – Above all, what makes us different, is the people of Thomas Cook.

HIGHLIGHTS

- Group pro forma profit from operations* was €375.3 million (up 26 per cent)
- Group audited statutory profit before tax was €284.3 million (up 30 per cent)
- Final dividend of five pence per share recommended for 2007
- The Board intends to seek shareholder approval at an EGM to be held in March for a share buy-back programme of around €375 million

PRO FORMA FINANCIAL HIGHLIGHTS

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue €m**	11,714.5	11,870.6	-1.3%
Profit from operations €m*	375.3	297.7	+26.1%
Operating profit margin %†	3.2%	2.5%	+28.0%
Adjusted EPS (euro cents)††	27	20	+35.0%
Proposed dividend (pence)	5		

*Profit from operations is defined as earnings before interest and tax, and has been adjusted to exclude exceptional items and amortisation of business combination intangibles. It also excludes our share of the results of associates and joint ventures.

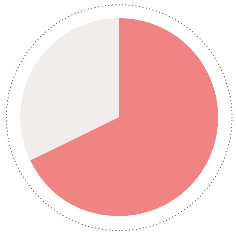
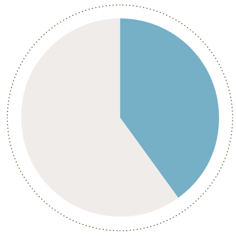
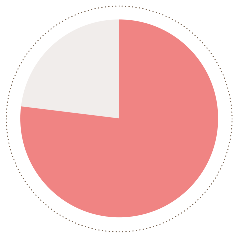
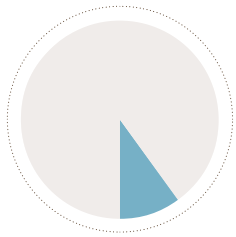
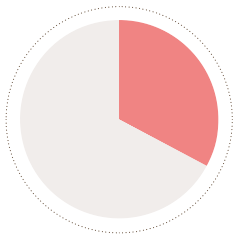
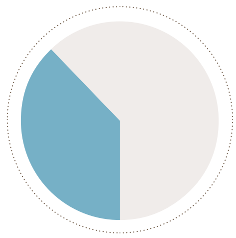
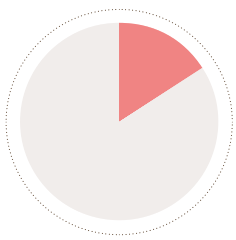
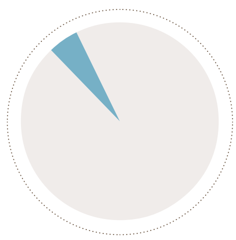
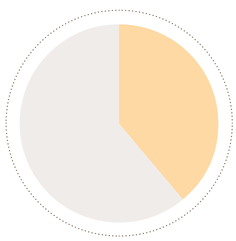
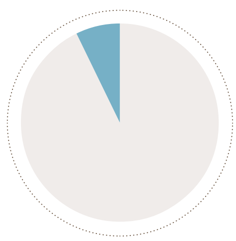
**Revenue for the Group represents external revenue only.

†The operating profit margin is the profit from operations (as defined above) divided by the external revenue.

††Adjusted earnings per share is calculated as pro forma net profit after tax, but before exceptional items and amortisation of business combination intangibles, divided by the number of shares in issue at 31 October 2007 (also for 2006 comparative). Profit after tax has been calculated using a notional tax rate of 30 per cent.

BUSINESS AT A GLANCE

DIVISION	CEO	PRO FORMA REVENUE	PRO FORMA OPERATING PROFIT
UK & Ireland	Manny Fontenla-Novoa 	€4.7bn	€121.5m
Northern Europe	Sam Weihagen 	€1.2bn	€109.7m
Continental Europe	Dr Peter Fankhauser 	€4.5bn	€99.5m
North America	Michael Friisdahl 	€0.6bn	€7.9m
Airlines Germany	Ralf Teckentrup 	€0.8bn* *external revenue only	€68.1m

MAIN BRANDS	DISTRIBUTION CHANNELS	PROPORTION OF PRO FORMA REVENUE BY DIVISION
Airtours Club 18-30 Cresta Direct Holidays Going Places Neilson Panorama Sunset Thomas Cook Thomas Cook Signature	 Controlled distribution (retail, internet and call centre) 68% Third-party distribution 32%	 Proportion of total revenue 40% Remaining proportion
Spies Tjaereborg Ving	 Controlled distribution (retail, internet and call centre) 77% Third-party distribution 23%	 Proportion of total revenue 10% Remaining proportion
Aquatour Bucher Last Minute Neckermann Reisen Pegase Thomas Cook Vrij Uit	 Controlled distribution (retail, internet and call centre) 33% Third-party distribution 67%	 Proportion of total revenue 38% Remaining proportion
AlbaTours Encore Cruise Escapes Holiday House Lifestyle Vacation Incentives Network Sunquest The Cruise Store	 Controlled distribution (retail, internet and call centre) 16% Third-party distribution 84%	 Proportion of total revenue 5% Remaining proportion
Condor	 In-house revenue to Thomas Cook Germany tour operator 39% Third-party tour operators and external seat only revenue 61%	 Proportion of total revenue 7% Remaining proportion

CHAIRMAN'S STATEMENT
Dr Thomas Middelhoff

The new Thomas Cook Group has an admirable pedigree. It springs from the merger of one of the world's oldest and most widely respected tourism groups, Thomas Cook AG, and the highly dynamic MyTravel, which was noted for operations in the UK, Northern Europe and North America.

Individually, each company had significant attributes. Together, they form a Group of truly international stature. Now Thomas Cook is competing from a position of strength in the mainstream tour business, independent travel and travel-related financial services. We are also ideally positioned to benefit from growing demand generated by emerging markets.

Looking ahead, we will maximise our advantages. These include a strong financial position; virtually unrivalled scale balanced by a streamlined decision-making structure; a respected brand portfolio and industry-leading margins.

We believe one of our main business differentiators is the high quality of our people – past and present, leading the competition in terms of the quality of our workforce. The skills and diversity of our people enable us to tailor our business model to best meet market needs no matter where we operate.

Notwithstanding our flexibility, one aspect of our business will remain constant. We are committed to operating an asset-light business model. To that end, we announced plans to merge our German airline, Condor with Air Berlin. Our intention is to create a leading airline that will serve Thomas Cook Group as a long-term strategic partner.

These plans are fully consistent with the strategies that have created Thomas Cook Group.

Thomas Cook has always succeeded by knowing our customers even better than they know themselves. In so doing, we have been able to empathise with their desires and aspirations and help them to achieve their travel ambitions – sometimes even before they knew they had them.

Today, we are combining this knowledge with the skill of being able to adapt to every shift in the increasingly dynamic market for leisure travel. That is one of the greatest strengths of the new Thomas Cook.

I would like to take this opportunity to thank Peter McHugh and John Bloodworth, who both retired from the Board on 31 December 2007. Peter became Chief Executive of MyTravel in 2002, when the company was in severe financial difficulties, and led the highly successful turnaround which ultimately made the merger a possibility. He was appointed Joint Chief Executive of Thomas Cook Group with Manny Fontenla-Novoa and left as planned after six months. John also played a valuable role in the MyTravel turnaround as head of its US and later its UK business. We wish them both well for the future.

"We believe one of our main business differentiators is the high quality of our people – past and present, leading the competition in terms of the quality of our workforce. The skills and diversity of our people enables us to tailor our business model to best meet market needs no matter where we operate."

The Board was initially formed by members of the boards of Arcandor AG, MyTravel Group plc and Thomas Cook AG. During the year we were pleased to welcome to the Board two new independent directors of considerable experience – Hemjö Klein, a former Executive Board member of Lufthansa AG, and Bo Lerenius, Chairman of the Swedish Chamber of Commerce and former Group Chief Executive of ABP Holdings plc.

Together with my fellow Board members, I would like to express confidence in the new Group's management team, led by Manny Fontenla-Novoa. Drawn from some of the most talented people in our industry, the people running Thomas Cook have already done an excellent job of merging the two companies and produced a first class performance so far.

Thanks to their leadership and the hard work of everyone at Thomas Cook, the Group is already acknowledged as a major force in the global leisure travel industry. We have the will, talent and knowledge to remain a leader in the business in which our name has long been a byword for quality and trust.

Dr Thomas Middelhoff
Chairman

STRATEGY
Manny Fontenla-Novoa

The events of the past 12 months have been revolutionary. The merger of Thomas Cook AG and MyTravel Group plc to form Thomas Cook Group plc led to a year of significant change, not only for our Group, but for the international travel industry as a whole.

The new Thomas Cook Group plc is a very positive organisation with ambitious plans for the future. In its first year, against the backdrop of a huge programme of integration, the new company delivered an excellent set of results, reporting a healthy increase in profit from operations. The integration is now largely complete, and having taken the very best from both former businesses, we are looking to the future with great confidence. We have a clear strategy in place that will build upon our strong foundations and maximise the potential that comes from being the best-known and most respected name in travel, with a proven track record for success and a unique history and heritage.

Strategy

The Group's new senior management team carried out a strategic review over the summer and we announced detailed plans in November.

We now have a clear strategy, which is to improve performance in mainstream tour operating, make significant advances in independent travel, travel-related financial services and emerging markets, and grow overall revenue and profit. We have set four key targets:

- Group profit from operations** to exceed €620 million in 2009/10, which implies EBITDA of more than €800 million.
- Group revenue to grow to approximately €13 billion in 2009/10.
- Revenue from financial services to grow from €215 million in 2005/06 to around €370 million in 2009/10.
- Revenue from independent travel to grow from €2.2 billion in 2005/06 to €3.3 billion in 2009/10.

Mainstream tour operating continues to generate the majority of our profit but, as the Group's revenue increases and with our focus on harnessing the stronger growth potential in independent travel and financial services, the balance between our revenue streams should change over time. We expect that revenue from mainstream (excluding financial services) will decline as a proportion of the total from 80 per cent in 2005/06 to 72 per cent in 2009/10. Revenue from independent travel is expected to increase as a proportion of the total from 18 per cent in 2005/06 to 25 per cent in 2009/10, while revenue from financial services is expected to increase as a proportion of the total from 2 per cent in 2005/06 to 3 per cent in 2009/10.

We have a successful UK financial services business, which generated €215 million of revenue and €52 million of profit from operations in 2005/06. We intend to grow this business significantly and, within the financial services business, we plan to develop our credit card business so that the proportion of revenue from that business rises from zero

**See Appendix 1

"We now have a clear strategy, which is to improve performance in mainstream tour operating, make significant advances in independent travel, travel-related financial services and emerging markets, and grow overall revenue and profit."

in 2005/06 to 13 per cent in 2009/10. This means that the proportion of revenue from foreign exchange is expected to fall from 69 per cent to 56 per cent, while the proportion from insurance is expected to remain at 31 per cent.

Since presenting our strategy to the market in November, we have announced plans for a €375 million share buy-back programme. The Board recognises fully the benefits of an efficient capital structure in helping to deliver value to shareholders. The Board also believes that in current economic conditions, the price of Thomas Cook Group shares is not representative of the true value of the business. It believes that a share repurchase programme will make the Group's shares more attractive to investors by increasing earnings per share in step with the percentage of shares repurchased. Consequently, the Board intends to proceed with a programme of repurchasing around €375 million worth of the Group's shares and to seek approval from shareholders at an EGM to be held on 12 March 2008. This level of share buy-back programme is consistent with the Group's financial strategy for developing the business through acquisitions and organic growth. Our approach to acquisitions remains as we set out when we described our strategy in November 2007. We are not seeking significant transactions but we are concentrating on looking for smaller acquisitions of complementary businesses. It is anticipated that a circular setting out full details of the share buy-back programme will be sent to shareholders in February 2008. The share repurchase programme will involve both on-market purchases and corresponding off-market purchases from Arcandor AG that will maintain Arcandor's shareholding at its current level.

We aim to increase the proportion of sales through controlled distribution in all our markets. The key to achieving this increase will be growing online sales. For 2007, online sales ranged from 5 per cent in Continental Europe to 35 per cent in Northern Europe, with an average for the Group of 13 per cent. Our target is to increase Group online sales to 35 per cent of the total by 2009/10.

Condor

In September, we reached agreement on the terms for Condor Flugdienst GmbH, the Group's German airline, to be merged into Air Berlin plc. The merger is subject to approval by the Bundeskartellamt (Federal Cartel Office), whose primary evaluation process is due to be completed by 7 April 2008. It is intended that the merger will be completed in two stages – 75.1 per cent in February 2009 and 24.9 per cent in February 2010 or earlier.

The Group will receive new Air Berlin shares with a value between €380 million and €475 million and a cash payment, expected to be approximately €120 million, in respect of surplus cash held in Condor. The deal is expected to be earnings-enhancing in 2008/09. The Group will experience an estimated reduction in net financial debt of €185 million and in pension obligations of €266 million.

The combination of Condor with Air Berlin will create one of the leading low-fare airlines in Europe. Air Berlin will remain the Group's long-term strategic partner, providing us with continued access to flying capacity, as well as a foothold in the German independent travel market. As a significant shareholder in Air Berlin we will be

"We have a talented and ambitious team of more than 30,000 people worldwide and through them we will maintain the momentum of our first year and continue to drive our business forward."

able to benefit from the strong market position, growth potential and expected synergies of at least €70 million per annum by 2010. This is a significant step in the realisation of our asset-light strategy, maximising flexibility and reducing risk.

There has been press speculation recently about the potential future of Air Berlin following significant purchases of the company's shares by Vatas Holding GmbH, an investment company. It should be noted that our contract with Air Berlin is binding and is unaffected by changes in control of the company's shares.

Thomas Cook Group plc has made great progress in a relatively short time and this exceptional performance is a true testament to the spirit of our people. Throughout an uncertain 12 months, the teams in all our operating markets have pulled together and never lost sight of what is important. They have remained focused on performance and working together as one united international team to ensure a smooth transition. Despite only coming together in June 2007, already the culture and values of our people are proving to be a key differentiator for the new Group and therein lies one of the key reasons for our confident outlook. We have a talented and ambitious team of more than 30,000 people worldwide and through them we will maintain the momentum of our first year and continue to drive our business forward, create value for our shareholders and deliver exceptional customer service at all times.

Thomas Cook is a fantastic business. Everyone across the Group has played an important role in the Company's development and, as a team we are determined that it should continue to go from strength to strength to achieve its potential and more in 2008 and beyond.

Manny Fontenla-Novoa
Group Chief Executive Officer

RETAIL TRAVEL

Moira Lumsden – Long haul specialist, Thomas Cook Dundee

'Most of my customers are planning a honeymoon or anniversary trip. I love the excitement of creating dream itineraries for customers to places they never thought they could afford. Last year I sold almost £2 million worth of holidays – a personal best in my 23-year Thomas Cook career.'

"I love the excitement of creating dream itineraries for customers to places they never thought they could afford."

PACKAGE HOLIDAYS

Romy Hallbauer – Holiday Representative, Neckermann Reisen, Canary Islands

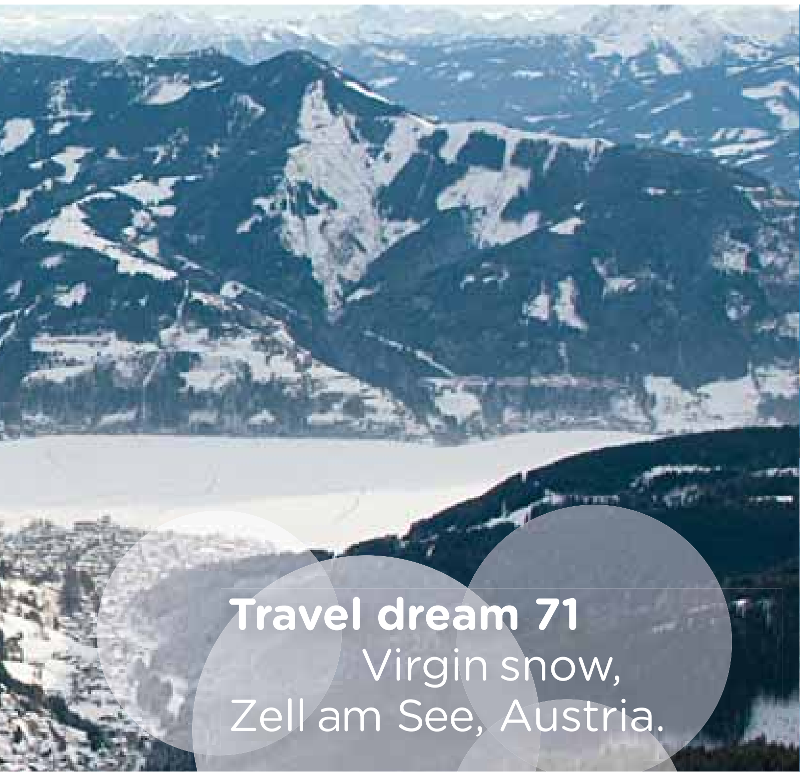
'I love travel as much as my guests. So I understand what makes them happy and how to help them enjoy their time in new, sometimes challenging cultures. Every day is different and it's fantastic when, at the end, guests thank you for all you've done.'

"Every day is different and it's fantastic when, at the end, guests thank you for all you've done."

WINTER HOLIDAYS

Henk Eggens – Senior product manager, Vrij Uit, Hoofddorp

'There are so many skiing options now, it's a challenge to ensure the right product mix for our customers here in the Netherlands. But by keeping in close contact with the market through trade fairs, organising familiarisation trips and seeing things for ourselves we've managed to win best Wintersport Tour Operator five years running.'



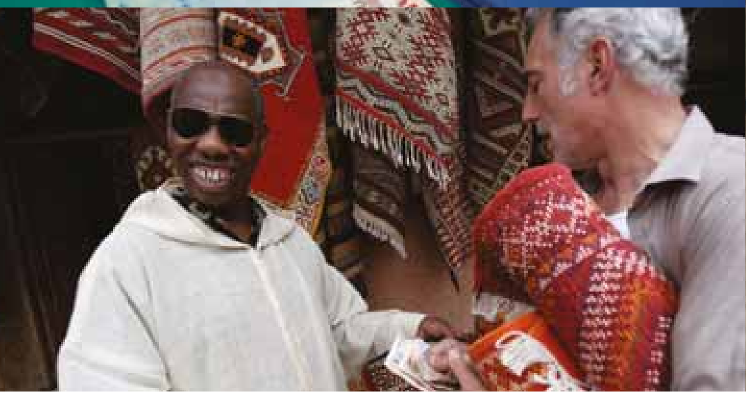
Travel dream 71
Virgin snow,
Zell am See, Austria.

"By keeping in close contact with the market we've managed to win best Wintersport Tour Operator five years running."

FOREIGN EXCHANGE

Geraldine Boyd – Customer services manager, Thomas Cook Bureau de Change, Manchester airport

'People are often pressed for time at the airport and dealing with foreign currency can be confusing. We make things easier by giving our customers good rates and the most convenient mix of notes. A bit of foreign cash in your pocket makes you feel your holiday has really started.'

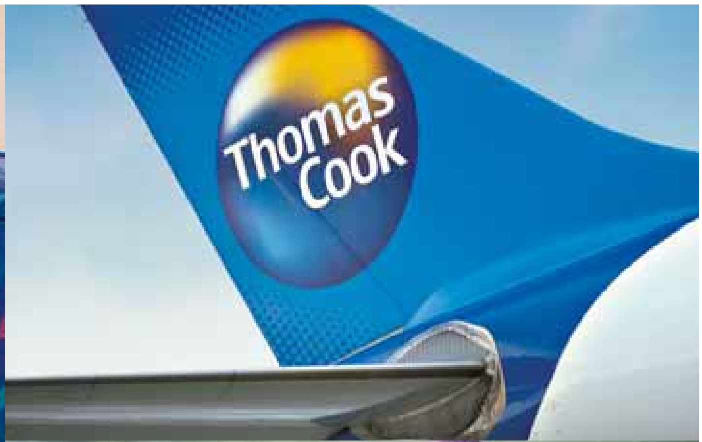


"A bit of foreign cash in your pocket makes you feel your holiday has really started."

EXPANDING MARKETS

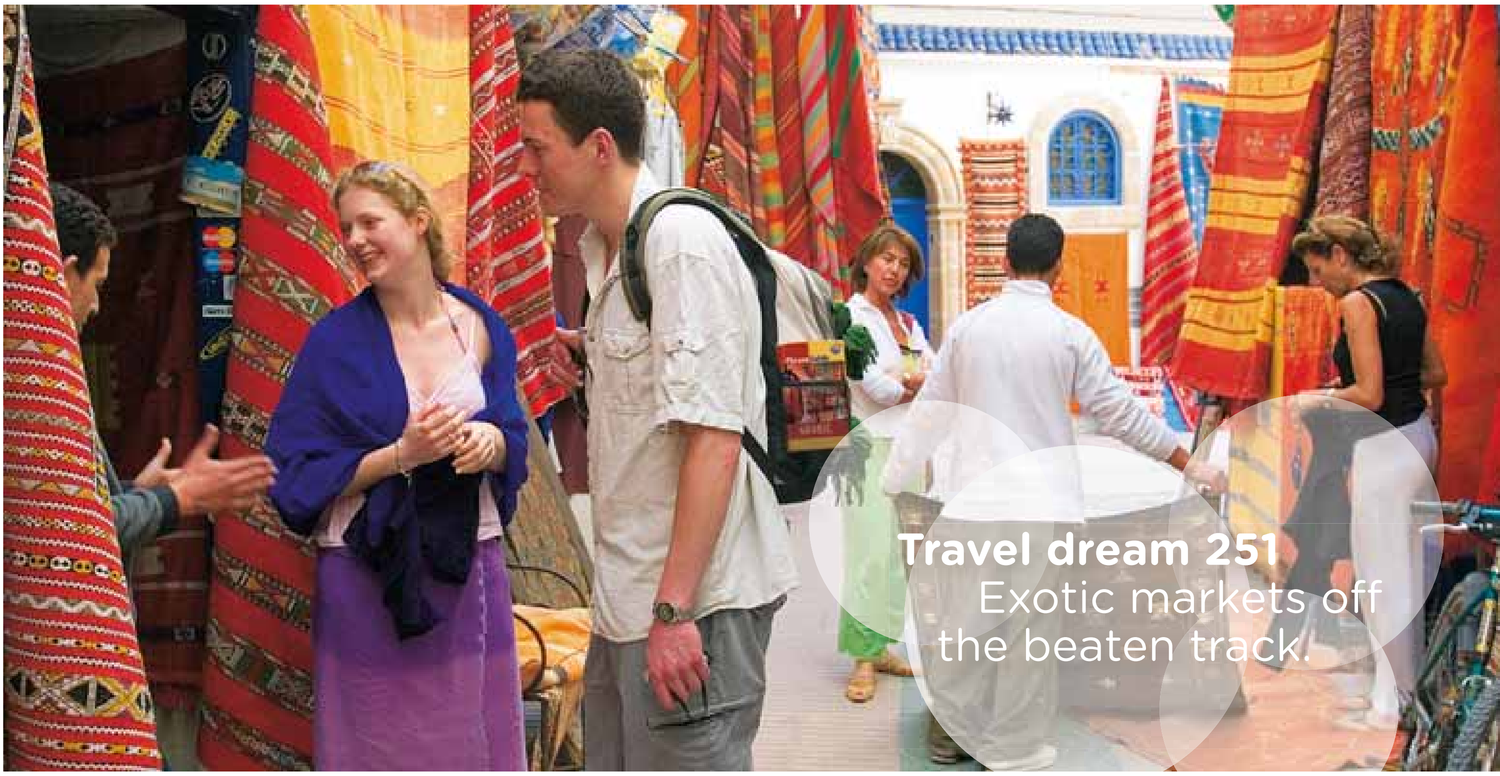
John Rosasco – Flight operations manager, Thomas Cook Airlines, Copenhagen

'Even after a flying career of 15,000 hours, I still get a kick when I get feedback from my passengers about how much they've enjoyed their flights. As I see it, it's an essential part of their holidays so everything has to be right. It's my responsibility to make it that way.'



"I still get a kick when I get feedback from my passengers about how much they've enjoyed their flights."

INDEPENDENT TRAVEL



Ben Morris – Call centre, Thomas Cook Signature, Peterborough

'In today's independent travel market, people can sometimes be spoilt for choice, that's where I can help. The most satisfying thing about my job is helping people to choose a holiday that's a perfect fit – matching their tastes, schedules and budgets with their dreams. You can hear it in their voices when you get it right.'

"The most satisfying thing about my job is helping people to choose a holiday that's a perfect fit."

CRUISE

Anna Pires – Guest relations manager, Encore Cruise Escapes, Toronto

'A cruise is a big event in most people's lives. I'm here to help our customers choose the right trip for them and then ensure that service meets their expectations. Having been on 18 cruises myself, I think they're magical. I like to share that magic.'

"Having been on 18 cruises myself, I think they're magical. I like to share that magic."

Behind every dream is 167 years of worldwide experience and 30,000 Thomas Cook people.

BUSINESS REVIEW

"We are on track to achieve merger synergies of at least €200 million by 2008/09."
Manny Fontenla-Novoa

Following the merger between MyTravel Group plc and Thomas Cook AG on 19 June 2007, the successful integration of the two companies, which was our primary objective for 2007, has now been largely completed:

- The senior management team is in place and meets regularly as the Group Management Board to coordinate the operational management of the Group.
- 144 shops in the UK have been closed to bring our retail estate to what we believe is the current optimum size. Most of our remaining 812 shops are now branded Thomas Cook, although the Going Places brand has been retained where this gives us a local advantage.
- The UK headquarters has been established in Peterborough and a number of sites have been closed to rationalise offices and call centres in the UK.
- Our new UK and Ireland brand strategy has been implemented, with Thomas Cook as our leading brand, supported by a strong portfolio of brands including Airtours in the mass market segment; Direct Holidays, the UK's number one brand for holidays sold direct to the consumer, and specialist brands such as Thomas Cook Signature, CruiseThomasCook, Cresta, Tradewinds, Neilson and Club 18-30.
- Thomas Cook Airways is now our integrated UK airline, operating with a single flight programme with effect from spring 2008.
- Our major UK tour operator reservation systems have been operating successfully on a common platform since the end of October 2007.
- Our UK finance back office systems have been fully integrated since November 2007.

We are on track to achieve merger synergies of at least €200 million by 2008/09, which is an increase of €60 million on our original prediction and up to a year ahead of schedule.

Current trading

Current trading has continued to be strong, with demand for both winter and summer holidays ahead of capacity. Together with our excellent capacity left to sell position, this places us in a good position for the rest of the financial year.

Winter 2007/08

Year on year pro forma variation %	Average selling price	Bookings	Capacity
UK	+2	-5	-7
Northern Europe	+8	+7	+7
Continental Europe	+3	-1	-
North America	-4	-2	-1

Note: Figures above are as at 19/20 January 2008. The figures above for UK, Northern Europe and North America represent Risk bookings only. In Continental Europe, all bookings are included.

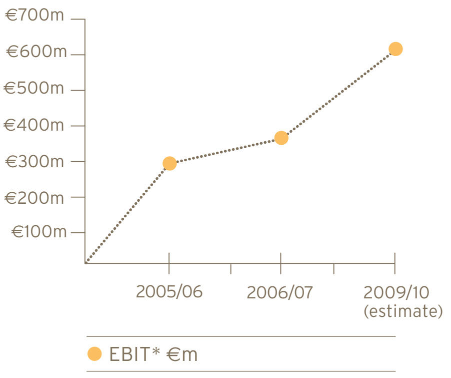
Trading for the winter season continues to track in line with our expectations.

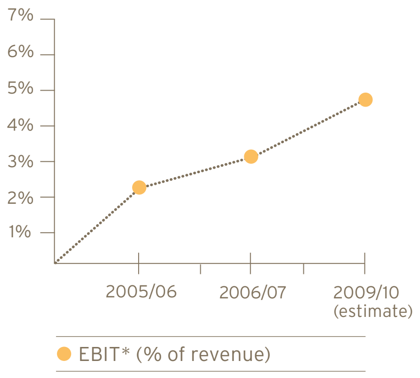
In the UK, bookings for the current winter season are now 5 per cent lower than the prior year. Capacity on sale is currently 7 per cent below the prior year and as a result we have fewer holidays left to sell than a year ago. Average selling prices and margins are ahead of the prior year.

Year on year pro forma variation %	Left to sell	Capacity
Short haul	-18	-21
Medium haul	-8	-4
Long haul*	-15	-12
UK total	**-9**	**-7**

Capacity to short haul destinations has been reduced by 21 per cent as we rationalise the product offering and exit unprofitable business. Bookings are in line with this capacity reduction and selling prices are better year on year.

BUSINESS REVIEW CONTINUED





*Earnings before interest, tax, exceptional items, amortisation of business combination intangibles and excluding our share of results of associates and joint ventures.

Trading in medium haul is currently very pleasing. Whilst overall bookings are slightly down on the prior year, the load factors achieved to date on departed passengers have been ahead. In addition, selling prices are currently ahead of the prior year and we expect to see this trend continuing throughout the remainder of the season as we fulfil demand for February half-term and Easter.

*Capacity to long haul destinations has been reduced by 12 per cent year on year and largely reflects programme rationalisation to exit loss-making routes. The booked load factor is currently tracking ahead of the prior year and average selling prices are strong.

Trading in Northern Europe for winter 2007/08 remains very strong. Bookings are up 7 per cent on the prior year with 7 per cent more capacity. Average selling prices are 8 per cent ahead year on year.

In Continental Europe, trading for winter 2007/08 has shown a significant improvement over the last few weeks and is very encouraging. Total bookings are currently 1 per cent down year on year and average selling prices are 3 per cent ahead of the prior year. Following sizeable capacity reductions, we are pleased with trading in Germany, where we now have significantly fewer holidays to sell than in the prior year and are utilising our capacity better.

Trading in Belgium, our next largest market, has also continued strongly with both bookings and selling prices well ahead of the prior year. In the Netherlands, overall bookings are behind the prior year but this reflects a reduction in non-risk car holidays. Air-inclusive bookings, where we are on risk, are ahead year on year. Selling prices are significantly ahead following the change in bookings mix from car holidays to more air-inclusive holidays.

Trading in France, where volumes are much lower, is satisfactory. Trading in the Eastern markets (Poland, Hungary and the Czech Republic) is very strong, with bookings significantly ahead year on year.

In North America, winter trading has improved in the last few weeks and bookings are now 2 per cent lower than last year and average selling prices are 4 per cent lower than last year. The bookings position reflects the continued difficult market conditions. However, management are taking steps to mitigate the impact where possible and we remain confident about achieving our expectations for an improved financial performance year on year.

The booked seat load factor in Airlines Germany for winter is currently 7 per cent ahead of the prior year.

Summer 2008

Year on year pro forma variation %	Average selling price	Bookings	Capacity
UK	+2	-2	-9
Northern Europe	+10	+14	+2
Continental Europe	+1	+5	-

Note: Figures above are as at 19/20 January 2008. The figures above for UK, Northern Europe and North America represent Risk bookings only. In Continental Europe, all bookings are included.

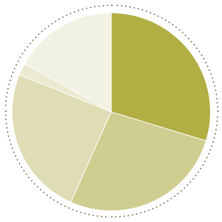
The post-Christmas trading period is very important in all our major markets. Whilst it is still early, we are pleased with trading in that period and have experienced robust demand for holidays.

Trading in the UK for the summer season 2008 has continued well and early indications are that selling in the peak post-Christmas period is encouraging with strong sales to our key medium haul destinations of Turkey and Egypt.

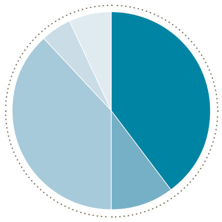
Year on year pro forma variation %	Left to sell	Capacity
Short haul	-25	-21
Medium haul	-6	-3
Long haul*	-25	-9
UK total	**-14**	**-9**

Overall bookings are currently 2 per cent behind the prior year, however, as with winter 2007/08, we are adjusting the combined flying programme to exit unprofitable business and optimise yield management. Capacity is currently 9 per cent lower than for summer 2007.

*Capacity in long haul has been reduced by 9 per cent; however, this is largely due to the increase in the aircraft seat pitch. In addition, we



PRO FORMA OPERATING PROFIT BY DIVISION	€m
UK & Ireland	121.5
Northern Europe	109.7
Continental Europe	99.5
North America	7.9
Airlines Germany	68.1



PRO FORMA REVENUE BY DIVISION	€bn
UK & Ireland	4.7
Northern Europe	1.2
Continental Europe	4.5
North America	0.6
Airlines Germany*	0.8

*External revenue only.

have exited unprofitable routes to China and other long haul destinations as part of our review of flight programmes. As a result of the capacity reductions, particularly in short haul and long haul, we expect to have considerably fewer holidays left to sell in the lates market, which we expect will improve profitability. Average selling prices are currently 2 per cent ahead.

Early trading for summer 2008 in Northern Europe has continued strongly. Bookings are currently 14 per cent ahead year on year even though capacity has only been increased by 2 per cent. Average selling prices are 10 per cent ahead.

Early indications for summer trading in Continental Europe, and in particular Germany, are very encouraging with total bookings 5 per cent up and average selling prices 1 per cent up year on year.

The summer programme in North America has only very recently been launched but has started well.

The booked seat load factor in Airlines Germany for summer is currently 3 per cent ahead of the prior year.

Fuel and foreign currency

Fuel and foreign exchange rate volatility have a material impact on the Group's variable cost base. It continues to be our policy, to manage this volatility, to hedge fuel and foreign currency trading requirements over an 18-24 month period. We are comfortable with our overall hedged position for the current financial year.

Outlook

The Board looks to the future with confidence. In the short term, we are encouraged by the business's performance since the year end and ongoing current trading. In the longer term, merger synergies of at least €200 million provide a sound platform for the achievement of our target of at least €620 million operating profit in 2009/10.

The Board has reviewed current and forecast economic conditions and considered the impact these could have on our business. We have not seen any effect on our trading, which continues to improve in the markets which generate most of our profits. We believe this can be primarily attributed to (i) the high priority that European consumers place on their major foreign holidays, and (ii) our ability, through our asset-light model, to effectively manage the balance between supply and demand. By managing the number of holidays to be sold, we believe we are in a position to benefit from higher average selling prices and are less exposed to any future change in demand.
The outlook therefore continues to be positive for both winter 2007/08 and summer 2008.

FINANCIAL REVIEW
Ludger Heuberg

PRO FORMA (UNAUDITED) FINANCIAL RESULTS AND PERFORMANCE REVIEW

To assist investors in understanding the performance of the Group, pro forma financial information has been prepared to show the results of the Group as if the two former groups had always been combined. The pro forma financial information has been prepared on an adjusted basis which means before exceptional items, amortisation of intangible assets that arose from the business combination, interest and tax (unless otherwise indicated), and excludes our share of the results of associates and joint ventures.

Group
Key performance indicators

	Year ended 31 October 2007 €m	Year ended 31 October 2006 €m	Change %
Revenue*	**11,714.5**	11,870.6	-1.3
Profit from operations**	**375.3**	297.7	+26.1
Operating profit margin %***	**3.2%**	2.5%	+28.0
Adjusted EPS (euro cents) ‹	**27**	20	+35.0
Adjusted dividend cover ›	**2.5**		

See Appendix 1 for key.

Group pro forma revenue for the year was €11,714.5 million, a decrease of 1.3 per cent on the prior year. Revenue decreased year on year in the UK (down €22.3 million), Continental Europe (down €90.4 million), North America (down €124.8 million) and Corporate (down €34.9 million). These decreases were offset by increases in Northern Europe (up €42.9 million) and Airlines Germany (up €73.4 million).

"Pro forma profit from operations increased by 26 per cent to €375.3 million."

Pro forma profit from operations** increased by 26 per cent to €375.3 million. Improvements were seen in all segments except for North America where over capacity in the market place affected margins.

See Appendix 1 for key.

"The Board is recommending a final dividend of five pence per share for the year ended 31 October 2007, for payment after, and subject to, shareholder approval at the Annual General Meeting expected to be held on 10 April 2008."

Pro forma exceptional operating items amounted to €211.2 million (2006: pro forma profit of €13.6 million) and largely related to the post-merger integration process.

More details of the movements in revenue and profit from operations** are given in the pro forma segmental review opposite.

Pro forma adjusted earnings per share for the period was € cents 27 compared with € cents 20 in the pro forma prior year period. Pro forma adjusted earnings per share has been calculated using the pro forma profit for the period before exceptional items and amortisation of business combination intangibles divided by the number of shares in issue at the end of the 2006/07 year. Adjustments have been made to reflect a normalised tax charge.

As announced on 21 November 2007, the Board expects to recommend dividends per share in respect of each full year in the range of 40-50 per cent of earnings per share and to pay one-third of an annual dividend as an interim and two-thirds as a final dividend. The Board believes it is desirable to provide shareholders with dividend payments increasing progressively over time. Applying this policy, the Board is recommending a final dividend of 5 pence per share for the year ended 31 October 2007, for payment after, and subject to shareholder approval at, the Annual General Meeting expected to be held on 10 April 2008. Based on the adjusted earnings per share figure noted above, this equates to a 40 per cent payout for the full year (assuming an interim dividend of one-third had been applicable).

Pro forma unaudited segmental performance review

	Year ended 31 October 2007 €m	Year ended 31 October 2006 €m	Change %
Revenue*			
UK	**4,714.3**	4,736.6	-0.5
Northern Europe	**1,194.8**	1,151.9	+3.7
Continental Europe	**4,477.4**	4,567.8	-2.0
North America	**559.8**	684.6	-18.2
Airlines Germany	**767.8**	694.4	+10.6
Corporate	**0.4**	35.3	-98.9
Group	**11,714.5**	11,870.6	-1.3
Profit from operations**			
UK	**121.5**	89.2	+36.2
Northern Europe	**109.7**	92.6	+18.5
Continental Europe	**99.5**	99.2	+0.3
North America	**7.9**	15.7	-49.7
Airlines Germany	**68.1**	38.1	+78.7
Corporate	**(31.4)**	(37.1)	+15.4
Group	**375.3**	297.7	+26.1

See Appendix 1 for key.

FINANCIAL REVIEW CONTINUED

UK

Key performance indicators

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue (€m)*	**4,714.3**	4,736.6	-0.5
Profit from operations (€m)**	**121.5**	89.2	+36.2
Operating profit margin %***	**2.6%**	1.9%	+36.8
Passengers (000s)†			
Risk			-4.0
Non-Risk			-4.0
Capacity (000s)††			-3.5
Average selling price (£)#			+1.6
Load factor %†††			-0.5
Brochure mix %##			-2.4
Controlled distribution %‡	**68.3%**	65.5%	+4.3
Internet distribution %‡	**16.2%**	13.6%	+19.1

See Appendix 1 for key.

The UK business consists of the previous Thomas Cook businesses in the UK together with the previous MyTravel UK businesses. Both companies operated a highly integrated tour operator model throughout the period of this review. Given the relatively long lead time between programme planning and holiday departure, the two businesses have operated largely autonomously for the summer 2007 season departures. However, we were able to unlock some operational synergies, particularly in selling lates towards the end of the season, and successfully merged the two businesses onto one reservation system without any disruption to the selling process during October.

Pro forma revenue for the year was down 0.5 per cent on the prior year. This reduction largely reflects lower passenger numbers offset by the increase in average selling prices achieved. Within the risk tour operating business, where capacity is committed prior to the start of the season, one of the key success factors is ensuring that supply and demand remain in balance and the sale of loss-making programmes and holidays are minimised. In order to manage this, capacity on sale was reduced in the period, particularly in the former MyTravel risk business, and average selling prices achieved were 1.6 per cent higher than in the previous period. Despite a strong late trading performance which saw our margins significantly ahead of last year and a continuation of our strategy to move more of our capacity into medium haul destinations, these increases were not sufficient to compensate for the slow market conditions earlier in the year. As a consequence of this, and along with the additional charges placed upon the sector for air passenger duty and the increase in the cost of fuel, the gross margin achieved was lower year on year.

The shortfall in gross margin, however, was more than offset by reductions in overhead costs, such that the pro forma profit from operations** increased by €32.3 million year on year.

As outlined in our strategy presentation which was given to analysts on 21 November 2007 (and a copy of which is available on our website at www.thomascookgroup.com), control of distribution and, in particular, growth of sales through the internet is one of the cornerstones to our future success. During the period, our share of internet distribution grew to 16 per cent, an increase of 19 per cent over the prior year. Our share of controlled distribution also grew in the period by 4 per cent to 68 per cent.

Northern Europe

Key performance indicators

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue (€m)*	**1,194.8**	1,151.9	+3.7
Profit from operations (€m)**	**109.7**	92.6	+18.5
Operating profit margin %***	**9.2%**	8.0%	+15.0
Passengers (000s)†			
Risk			-2.3
Non-Risk			+8.7
Capacity (000s)††			-3.2
Average selling price (SEK)#			+8.2
Load factor %†††			+0.9
Brochure mix %##			-1.3
Controlled distribution %‡	**76.5%**	73.5%	+4.1
Internet distribution %‡	**35.3%**	28.0%	+26.1

See Appendix 1 for key.

The Northern Europe division is made up of fully integrated mainstream tour operating businesses in Sweden, Denmark, Norway and Finland. It also operates an airline which services a large proportion of the tour operators' flight requirements and has an exclusive hotel concept, Sunwing Resorts. In this division, we had a very successful year reflecting a strong performance in both winter and summer in a mature market.

As noted above, the balance between supply and demand in an integrated tour operator model is fundamental to success, and during the year, we reduced capacity in Northern Europe by 3.2 per cent through the removal from the fleet of an A320 aircraft. Despite this reduction in capacity, pro forma revenue increased in the year by 3.7 per cent. Whilst brochure mix was slightly lower than the prior year, the overall average selling price achieved improved by 8.2 per cent and the load factor by 0.9 per cent. These improvements reflect growth in long haul products in the winter and strong demand in the summer lates market following an unseasonably wet summer. The winter long haul growth is predominantly to Thailand, where we opened a new Sunwing Resort in winter 2006/07. We also opened a Sunwing Resort in Turkey during the year.

During the period, our share of internet distribution grew to 35 per cent, an increase of 26 per cent over the prior year. Our share of controlled distribution also grew in the period, but more modestly, as we closed 13 shops in Sweden and 2 in Norway.

As a result of the strong trading performance, the pro forma profit from operations** increased by €17.1 million to €109.7 million. The operating profit margin also rose to 9.2 per cent, maintaining our industry-leading margin position in this segment.

Continental Europe

Key performance indicators

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue (€m)*	**4,477.4**	4,567.8	-2.0
Profit from operations (€m)**	**99.5**	99.2	+0.3
Operating profit margin %***	**2.2%**	2.2%	-
Passengers (000s)†			
Flight-inclusive			-7.7
Non-flight inclusive			-0.8
Average selling price (€)#			+1.5
Controlled distribution %‡	**33.2%**	31.2%	+6.4
Internet distribution %‡	**5.4%**	4.8%	+12.5

See Appendix 1 for key.

The Continental Europe division is made up of businesses operating out of Germany, France, Belgium and Holland (West), and Poland, Hungary and the Czech Republic (East). The businesses in the Continental Europe segment are, in general, less vertically integrated than in the UK and Northern Europe segments, with Belgium being the only business where we have both an in-house airline and a strong presence in retail. In Germany, approximately half of the airline seat capacity is sourced from the Airlines Germany segment but the airline is operated independently of the tour operator business. In France, we have a stronger retail than tour operator presence, although the tour operator business is growing. In Holland, Poland, Hungary, and the Czech Republic, we have a strong tour operator and retail presence.

Pro forma revenue in the year in Continental Europe was down 2 per cent from the prior year at €4,477.4 million. This largely reflects lower flight-inclusive passengers (down 7.7 per cent), offset by an increase in the average selling price achieved (up 1.5 per cent).

The reduction in flight-inclusive passengers largely occurred in the German business. Challenging trading conditions prevailed throughout the year in Germany, particularly in the short haul business. Average selling prices achieved were higher year on year; however, demand for holidays was weaker than expected and consequently we were able to utilise less of our committed aircraft capacity than originally planned. However, management actions taken to reduce the capacity throughout the year, where possible, together with increased sales through controlled and internet distribution, ensured that the impact of the difficult trading conditions was minimised. Successful cost management also mitigated some of the disappointing trading performance.

We were very pleased with the trading performance in the Belgian and French tour operating businesses, where both passengers carried and average selling prices achieved were much improved year on year. In addition, the retail business in France performed very well. In Holland, we had a steady performance year on year with lower passenger numbers being offset by increased selling prices as the mix of holidays shifted from car holidays to air-inclusive.

In Poland and Hungary, the operating performance year on year was satisfactory. We are expanding our presence in the East European market and recently acquired a retail business in the Czech Republic as well as establishing our own tour operator.

During the period, our share of internet distribution in the Continental Europe segment grew over the prior year, but still stands at a modest 5 per cent and is a key area of focus for our strategy going forward. Our share of controlled distribution also grew in the period to 33 per cent, but is still below our targeted level.

As a result of the strong performance in Belgium and France and the successful capacity and cost management to minimise the impact of the disappointing trading in Germany, the pro forma profit from operations** increased slightly to €99.5 million. The operating profit margin remained static at 2.2 per cent.

North America

Key performance indicators

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue (€m)*	**559.8**	684.6	-18.2
Profit from operations (€m)**	**7.9**	15.7	-49.7
Operating profit margin %***	**1.4%**	2.3%	-39.1
Passengers (000s)†			
Risk			-12.1
Non-Risk			+6.3
Capacity (000s)††			-11.5
Average selling price (C$)#			+3.6
Load factor %†††			-0.6
Brochure mix %##			+4.2
Controlled distribution %‡	**16.1%**	16.5%	-2.4
Internet distribution %‡	**6.9%**	5.9%	+16.9

See Appendix 1 for key.

The North America segment largely comprises a tour operator and a retail business in Canada, although there are also some smaller independent businesses in Canada and some speciality travel services businesses in the USA. Unlike in the UK and Continental Europe, where the peak holiday season is summer, the Canadian peak is in winter.

Pro forma revenue in the year reduced by 18.2 per cent to €559.8 million. In response to over capacity issues in the market place, management reduced the capacity on sale by 11.5 per cent

FINANCIAL REVIEW CONTINUED

year on year. However, the majority of this reduction came in the summer season.

In the winter season, capacity in our North American tour operator was reduced by 4 per cent, but this was not sufficient to fully mitigate the impact of over capacity in the market place (we estimate that the capacity in the market increased overall by 8 per cent despite our reduction). Selling prices achieved in winter were slightly better year on year; however this increase was not sufficient to cover increased direct costs, resulting in significantly lower margins being achieved.

The poor winter performance was partially offset by improved trading in the summer, where management actions to reduce capacity on poorly performing routes had a greater impact and resulted in significant increases in average margins achieved. Given the counter-cyclical nature of the North American businesses, however, these summer improvements were not sufficient to offset the winter shortfall. As a result, the pro forma profit from operations** for the year was reduced by €7.8 million to €7.9 million.

During the period, our share of internet distribution in the North America segment grew by 17 per cent over the prior year to 7 per cent. Our share of controlled distribution fell slightly as the acquisition of Encore Cruises at the end of 2006 temporarily diluted our overall share.

Airlines Germany

Key performance indicators

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue – external (€m)	**767.8**	694.4	+10.6
Revenue – internal (€m)	**494.6**	547.9	-9.7
Total revenue	**1,262.4**	1,242.3	+1.6
Profit from operations (€m)**	**68.1**	38.1	+78.7
Operating profit margin %***	**5.4%**	3.1%	+74.2
Sold seats (000s)‡‡			
TC tour operators			-17.5
Third-party tour operators			+20.9
External seat only			-9.0
Total sold seats			-7.7
Sold seats (000s)‡‡			
Europe (excluding Cities)			-9.6
Long haul			+6.7
Cities			-15.3
Total sold seats			-7.7
Capacity (ASK m)††			-3.0
Yield (€)###			+9.1
Seat load factor %†††			+0.8

See Appendix 1 for key.

Our Airlines Germany segment consists of Condor, our low fare leisure-travel airline which operates out of Germany. The airline operates a fleet of 36 aircraft, of which 27 operate within Europe and 9 operate long haul. The airline is independent of the German tour operator however, in 2006/07 44 per cent of its seats sold went to service the requirements of the Thomas Cook Germany tour operator (2005/06: 50 per cent).

Total pro forma revenue in 2006/07 increased by 1.6 per cent year on year to €1,262.4 million. This reflects an increase in long haul volumes and yields achieved, offset partly by a reduction in European flying, largely as a result of the capacity reductions in our German tour operator business and the resultant removal of one aircraft from the fleet.

Operating costs reduced year on year largely as a result of having one less aircraft in the fleet.

Pro forma profit from operations** increased in 2006/07 to €68.1 million (2005/06: €38.1 million). This result comes despite the difficult trading conditions in Germany and reflects a strong performance in long haul and the successful completion of the turnaround of this business, with management focusing on profitable routes and successful cost control.

Corporate

Key performance indicators

	Year ended 31 October 2007	Year ended 31 October 2006	Change %
Revenue (€m)*	**0.4**	35.3	-98.9
Loss from operations (€m)**	**(31.4)**	(37.1)	+15.4

See Appendix 1 for key.

The Corporate segment largely represents unallocated head office costs and the results of businesses held for sale. The significant reduction in revenue in the year reflects the completion of the planned divestment of non-core businesses within the former Thomas Cook AG.

The loss from operations** reduced by €5.7 million to €31.4 million year on year. This reduction partly reflects the divestment programme noted above and partly reflects effective cost control within the corporate functions.

RECONCILIATION OF PRO FORMA AND STATUTORY PROFIT FROM OPERATIONS**

The table below sets out the key reconciling differences in profit from operations** on a pro forma basis compared with a statutory basis for 2007 and the comparative period.

	Year ended 31 October 2007	Year ended 31 October 2006
Pro forma Group profit from operations**	**375.3**	297.7
Adjustments:		
Pre-merger operating loss/(profit) of MyTravel	**79.1**	(90.7)
Pre-merger impact of fair value adjustments	**(16.7)**	(26.1)
IAS 39 business combination adjustment	**17.7**	–
Statutory Group profit from operations**	**455.4**	180.9

See Appendix 1 for key.

The statutory Group profit from operations** reflects 100 per cent of the results of Thomas Cook AG for the full financial year (and the full comparative period) and 100 per cent of MyTravel Group plc and Thomas Cook Group plc from 19 June 2007, being the date of the merger. Consequently, the first adjustment in the table above removes the pre-merger results of MyTravel Group plc. As MyTravel Group plc made losses in the winter period 2007 but profits in the full year 2006, this adjustment improves statutory profitability in 2007, whilst reducing the 2006 profitability.

In preparing the pro forma profit from operations**, account was taken of the impact of acquisition accounting. As part of the fair value adjustments, a provision was made in respect of above market rate hotel lease rentals. In addition, the value of aircraft held on the balance sheet was reduced. In the pro forma figures, we have assumed that both of these adjustments were made prior to 1 November 2005 and, as a result, the impact of a full year of lower rental costs and reduced depreciation has been reflected in the pro forma profit from operations** in both 2006/07 and 2005/06. The net effect of these fair value adjustments has been to increase the pro forma profit from operations** for both years by €26.1 million. The second adjustment above, therefore, removes the impact of this adjustment from the pre-acquisition period.

The IAS 39 business combination adjustment represents unrecognised losses on hedging instruments taken to reserves within the MyTravel business prior to the date of the business combination. On consolidation these amounts are included within goodwill and are therefore not recognised in the pro forma figures but increase statutory profit from operations.

AUDITED STATUTORY FINANCIAL RESULTS

As noted above, the statutory results for Thomas Cook Group plc for the year ended 31 October 2007 contain a full year of results for the former Thomas Cook AG businesses and four months and 11 days of results for the former MyTravel Group plc and Thomas Cook Group plc on an acquisition accounting basis.

Income statement highlights

Revenue and profit from operations**

Revenue in the year amounted to €9,439.3 million compared with €7,780.2 million in the prior year. Profit from operations before exceptional items and amortisation of business combination intangibles was €455.4 million compared with €180.9 million in the prior year.

Exceptional operating items

Total net exceptional operating costs in the year were €184.8 million compared with a net profit of €37.3 million in the prior year. Exceptional items are defined as costs or profits that have arisen in the period which management do not believe are a result of normal operating performance and which, if not separately disclosed, would distort the year on year comparison of trading performance.

Included within the net €184.8 million of exceptional items are €133.3 million of costs associated with the integration of the former MyTravel and Thomas Cook businesses. The majority of these costs have arisen in the UK businesses and largely reflect property costs, redundancy and other people-related costs of closing down a number of operational sites.

Other exceptional costs include impairment of property, plant and equipment and other assets (€13.0 million), irrecoverable air passenger duty (€9.4 million), aborted acquisition costs (€10.5 million), non-merger-related business restructuring (€19.6 million), and other merger-related costs (€16.9 million). These have been partially offset by exceptional gains on the disposal of businesses and assets (€17.9 million).

Amortisation of business combination intangibles

Amortisation of business combination intangibles in the year amounted to €43.1 million, of which €15.0 million relates to the amortisation of brand names, customer relationships and computer software, and €28.1 million to the amortisation of the order backlog that existed at the time of the combination.

Associates and joint ventures

The profit on disposal of associates during the year of €52.4 million (2006: €20.4 million) largely reflects the sale, to Arcandor (formerly KarstadtQuelle), on an arm's length basis, of our 50 per cent interest in SunExpress, an airline based in Turkey. The proceeds from the sale amounted to €54.0 million. This disposal realised a profit of €50.1 million. In addition, during the year, the Group disposed of its interests in Falstacen S.L., Thomas Cook Thailand and Troll Reisen GmbH, realising further profits of €2.3 million.

Our share of results of associates and joint ventures was €2.6 million (2006: €4.9 million). The reduction in profitability relates largely to the disposal of SunExpress. Net investment income which reflects dividends and interest received from investments was €2.5 million (2006: €0.9 million).

**See Appendix 1

FINANCIAL REVIEW CONTINUED

Net finance costs

Net finance costs in the year were €0.7 million (2006: €25.4 million). The reduction in net costs year on year largely reflects an increase in the expected return on pension plan assets. This is as a result of the increase in the scheme assets year on year, the main contributor to which was the special one-off contribution payment made in 2006 into the Thomas Cook UK defined benefit scheme of €124.5 million.

Profit before tax for the year ended 31 October 2007 was €284.3 million (2006: €219.0 million).

Tax

The tax charge in the year was €58.8 million (2006: €39.2 million). Excluding the effect of adjustments to tax provisions made in respect of previous years, this represents an effective tax rate of 30 per cent on the profit for the year.

The cash tax rate will continue to be considerably lower than 30 per cent as a result of being able to utilise the losses available in the UK and Germany. Total losses available to carry forward in the Group at 31 October 2007 are €1.8 billion. Deferred tax assets have been recognised in respect of €1.0 billion of this amount.

Profit after tax for the year ended 31 October 2007 was €225.5 million (2006: €179.8 million).

Earnings per share and dividends

The basic and diluted earnings per share for the year was € cents 33 (2006: € cents 35). To allow a more like-for-like comparison to the prior year, earnings per share before exceptional items and amortisation of business combination intangibles has also been calculated. This was € cents 54 for 2007 (2006: € cents 25). However, it should be noted that the earnings per share figures noted here are impacted by the weighted average number of shares in issue which are significantly lower for the comparative period due to the nature of the merger transaction. As a result, management believes that the adjusted earnings per share figures included within the pro forma financial results and performance review section of this report are a better measure of return.

As noted in the pro forma financial results and performance review section of this report, the Board is recommending a final dividend of 5 pence per share for the year ended 31 October 2007, for payment after, and subject to shareholder approval at, the Annual General Meeting expected to be held on 10 April 2008.

Balance sheet

Net assets at 31 October 2007 were €3,042.4 million (2006: €598.1 million). The business combination of Thomas Cook AG and MyTravel has been accounted for on the basis that Thomas Cook AG is the acquirer. Consequently, the MyTravel acquisition balance sheet has been the subject of a fair value exercise under IFRS 3. This fair value exercise resulted in the recognition of goodwill and purchased intangibles of €2,903.1 million, of which goodwill was €2,396.3 million, brand names, customer relationships and other intangibles were €457.3 million and order backlog was €49.5 million.

Net funds at 31 October 2007 were €357.0 million (2006: €65.9 million).

Cash flow and net funds

The net cash inflow from operating activities during the year was €237.6 million (2006: €182.7 million). This includes the profits from operations during the year, partly offset by a net outflow on working capital of €235.1 million. The working capital outflow results from the timing of the acquisition of MyTravel by Thomas Cook. As at 19 June 2007, MyTravel would have received cash due from customers departing on the peak season summer holidays, as these amounts are due some weeks prior to departure. However, payments to airlines, hoteliers and other suppliers are generally made later in the cycle, being just prior to departure in the case of airlines and when customers return from holiday in the case of hoteliers. Consequently, cash in hand in MyTravel at the time of the acquisition would have been approaching its peak with the post-acquisition period (being the part consolidated into the Thomas Cook Group plc accounts) showing significant cash outflow to settle creditors.

The net cash inflow from investing activities was €51.4 million (2006: €76.3 million). This includes €265.9 million net cash acquired with businesses, the majority of which relates to the acquisition of MyTravel; proceeds on disposal of subsidiaries and associates of €102.0 million (2006: €151.5 million); proceeds on disposal of property, plant and equipment of €46.2 million (2006: €54.9 million); and proceeds on disposal of non-current assets held for sale of €32.7 million (2006: nil). These have been offset by €294.0 million outflow for the purchase of short-term securities (2006: €59.6 million), and €101.4 million outflow on the purchase of assets (2006: €76.5 million).

The net cash outflow from financing activities was €152.8 million (2006: €200.5 million) and largely comprises capital repayments and interest payments on finance leases and similar borrowings. Also included is €17.9 million of expenses associated with the issue of ordinary shares, part of which relates to the Thomas Cook/MyTravel business combination.

Cash and cash equivalents on the balance sheet at 31 October 2007 were €892.8 million (2006: €736.0 million). This excludes cash held in short-term securities of €366.7 million (2006: €72.7 million). However the balance does include restricted cash of €166.7 million (2006: nil) which is held in escrow accounts in the US and Canada, in respect of local regulatory requirements, and held by White Horse Insurance Ireland Limited, the Group's captive insurance company. In addition it should be noted that the Group's working capital cycle is such that cash balances are at their lowest in the winter months and at their peak in the summer months.

Change of accounting reference date

The Board has decided that it will change the accounting reference date to 30 September with effect from the current financial period. The current financial period will therefore cover eleven months. Information showing what the impact of the change would have been on the pro forma results for 2007 will be provided as part of the Half Year reporting.

Treasury policies

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

To cover these risks, the Board has established treasury policies which are revised regularly to ensure they remain relevant to the business.

The Board approves all the financial instruments used by the Group to limit its risks. Internal guidelines provide the framework governing actions taken, responsibilities and controls. The use of derivative financial instruments is not permitted for speculative purposes, but instead serves exclusively to hedge existing underlying or planned transactions by the business units.

Treasury activities are managed by Group Treasury. Group Treasury reports regularly to members of the Board and is subject to periodic independent reviews and audits.

In accordance with the provisions set out in IAS 39, all derivative financial instruments must be measured at their fair values. The market valuation of the derivative financial instruments used is based on market information or appropriate valuation methods. The fair value of options is determined by recognised option price models and that of interest rates derivatives takes account of terms to maturity based on current market interest rates and the interest rate yield curve. Positive market values of derivative financial instruments are capitalised under other assets while negative market values are shown under other liabilities.

Foreign currency risks

The Group is active in many destinations and sales regions and, as such, is subject to the risk of exchange rate fluctuations in its operating activities. Exchange rate risks arise in connection with the sourcing of services from destinations outside the source market. Additionally, US dollar payments are made for the procurement of fuel and operating supplies for aircraft as well as for investments in aircraft.

The Group's policy requires all subsidiaries to hedge all trade-generated exposures with Group Treasury either as part of the budget process or at the time of brochure launch.

Use is made in particular of currency forwards, currency options (bought calls) and price range options in order to limit exchange rate risks and are usually designated as cash flow hedges of forecast future transactions.

Interest rate risks

The Group is also subject to risks arising from interest rate movements in connection with its financing of aircrafts and acquisition of investments. Floating rate medium to long-term items are exposed to interest rate risks. Interest rate swaps and cross currency swaps are designated as cash flow hedges of the interest rate.

Cash from operations is invested in short-term bank deposits and money market funds.

Fuel price risk

Fuel exposures relate to flying costs for the seasons on sale. Price hedging transactions are undertaken for the purpose of limiting the risk of unfavourable changes in the price of fuel. The aim of the hedging policy is to hedge 95 per cent of the fuel requirement for the flight schedule concerned.

Group policy requires the group airlines to hedge all fuel exposures with Group Treasury. Hedging is put in place using hedge combinations and crude oil premium collars as hedging instruments. Hedges concluded prior to September 2007 make use of crude oil price range options, fuel commodity swaps and other instruments as approved by the Board from time to time.

Liquidity risk

The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. Surplus funds are collected and invested with approved counterparties within authorised limits and with the aim of maintaining short-term liquidity while maximising yield.

Use is made of financial planning instruments for the early recognition of the future liquidity situation based on the results generated via the Group's strategy and planning process. The 12-month liquidity plan is updated with actual results on a regular basis. The Group activities are underpinned by long-term funding with adequate liquidity reserves freely available for disposal at all times in accordance with the plan.

Short-term liquidity

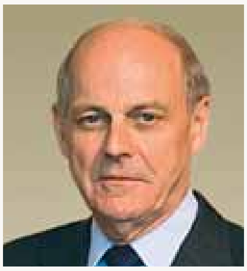
Short-term liquidity is invested in a combination of money market funds and securities. All securities are denominated in euros and largely represent corporate bonds, government bonds and asset backed securities with an average investment grade rating of A.

BOARD OF DIRECTORS

Dr Thomas Middelhoff – Non Executive Chairman

Dr Thomas Middelhoff is Chairman of the management board of Arcandor AG. He is also Chairman of Senator Entertainment AG, The Polestar Group Limited and moneybookers.com Limited and is on the board of the New York Times Company. Dr Middelhoff was previously Head of Europe for Corporate Investment at Investcorp International and Chairman and Chief Executive Officer of Bertelsmann AG.

Committees: Member of the Audit and Risk Management, Nominations and Management Development and Remuneration committees.



Michael Beckett – Non Executive Deputy Chairman. Senior Independent Non Executive Director

Mr Beckett is a non executive director of Northam Platinum and Orica Limited (Australia). Mr Beckett was previously chairman of London Clubs International plc, Ashanti Goldfields Company Limited, Clarkson plc and WBB Minerals Limited; formerly managing director of Consolidated Gold Fields plc.

Committees: Chairman of the Nominations and Management Development and Remuneration committees, member of the Audit and Risk Management and Health, Safety and Environmental committees.

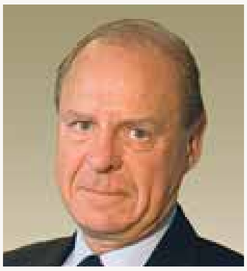
Manny Fontenla-Novoa – Group Chief Executive Officer

Mr Fontenla-Novoa is also a director of Worldchoice Marketing Limited (a dormant company), Hispano Alemana de Management Hotelero S.A. and Mediterranean Touristic Management S.L. Mr Fontenla-Novoa was previously group chief executive officer of Thomas Cook UK and Ireland for three years.

Committees: Member of the Health, Safety and Environmental committee.

Ludger Heuberg – Group Chief Financial Officer

Mr Heuberg is also a director of Hispano Alemana de Management Hotelero S.A., Mediterranean Touristic Management S.L. and Viajes Iberoservice S.A. Mr Heuberg was previously head of the supervisory board of Delvag Rück and the CFO of Lufthansa Cargo AG. Prior to this he was CFO of Kolbenschmidt-Pierburg AG and a director of Mauser Waldeck AG.



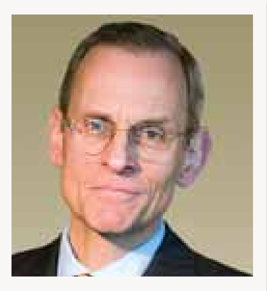
David Allvey – Independent Non Executive Director

Previously a non executive director of MyTravel Group plc, Mr Allvey is also non executive Chairman of Arena Coventry Limited and non executive Chairman of Costain Group plc. He also holds non executive roles at Intertek Group plc, Resolution plc and William Hill plc. Mr Allvey was previously group finance director of Barclays Bank plc, BAT Industries plc and Allied Zurich plc and was chief operating officer of Zurich Financial Services AG.

Committees: Chairman of the Audit and Risk Management Committee. Member of the Health, Safety and Environmental committee.

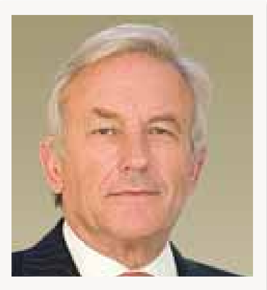
Roger Burnell – Independent Non Executive Director
Formerly a non executive director of MyTravel Group plc. Mr Burnell was previously chairman of Home Form Group Limited, chief operating officer and a director of Thomson Travel Group plc, chairman of The First Resort Limited and chairman of International Life Leisure Group Limited.

Committees: Chairman of the Health, Safety and Environmental committee, member of the Audit and Risk Management, Nominations and Management Development and Remuneration committees.



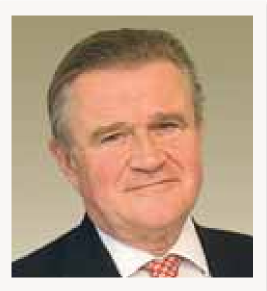
Dr Peter Diesch – Non Executive Director
Dr Diesch is currently CFO of Arcandor AG. He is also a supervisory board member of Delton AG. Dr Diesch was previously CFO and HR Director of Linde AG, CFO and HR director of Tchibo Holding AG and CFO of Airbus GmbH.

Committees: Member of the Audit and Risk Management, Nominations and Management Development and Remuneration committees.



Hemjö Klein – Independent Non Executive Director
Mr Klein is currently Chairman and CEO of Live Holding AG and was formerly a member of the executive board of Lufthansa AG and was a member of the executive board of Deutsche Bundesbahn and Deutsche Reichsbahn. He has also held the position as chairman of the supervisory board of each of Sixt AG, DER Deutsches Reiseburo GmbH and Condor Flugdienst GmbH. He was previously chairman of the board of directors of Amadeus SA and is a former member of the supervisory board of TUI AG. He is a past chairman and president of the German National Tourist Board.

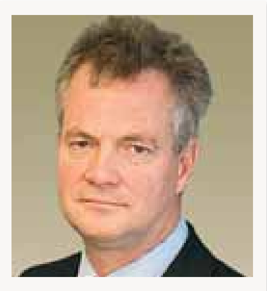
Committees: Member of the Management Development and Remuneration and Health, Safety and Environmental Committees.



Bo Lerenius – Independent Non Executive Director
Since April 2004, Mr Lerenius has been a non executive director of G4S plc and since June 2004 has been a non executive director of Land Securities Group PLC. He is a non executive director of a Swedish company, Ittur Construction, which has announced its intention to list on the Swedish Stock Exchange in 2009. Group chief executive of ABP Holdings PLC until March 2007 and a non executive director until 31 December 2007. Prior to joining ABP, between 1992 and 1998 he was chief executive of listed ferry company Stena Line. Between 1998 and 1999 he was vice chairman of Stena Line and director of new business at Stena AB. From 1985 to 1992 he was group president and chief executive of Swedish listed building materials group, Ernstomgruppen.

Mr Lerenius became chairman of the Swedish Chamber of Commerce for the UK on 15 June 2007.

Committees: Member of the Audit and Risk Management committee.



Dr Angus Porter – Independent Non Executive Director
Formerly a non executive director of MyTravel Group plc. Dr Porter is Global Chief Executive Officer of Added Value Group. Dr Porter was previously an executive director, and chairman of the customer board, of Abbey National plc, and managing director of British Telecom's consumer division.

Committees: Member of the Nominations and Management Development and Remuneration committees.

SENIOR MANAGEMENT

Dr Peter Fankhauser – Chief Executive Officer – Continental Europe Thomas Cook Group plc
Member of the management board at Thomas Cook AG.

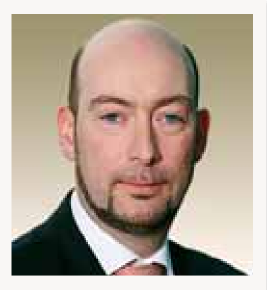
Peter Fankhauser is responsible for the German sales market as well as the Western and Eastern European markets. Having joined Reisebüro Kuoni AG in 1989, within six years he was appointed director general and member of group management of Kuoni Reisen Holding AG in Zurich. In that capacity, he was in charge of managing the Company's European division, with responsibility for six subsidiaries as well as market expansion. Soon, his remit extended to all group subsidiaries outside Switzerland and the UK. In 1999 he moved to LTU Group in Dusseldorf as Chief Executive Officer. Two years later, he was appointed a member of the Board of Thomas Cook AG and in 2003 became chief product officer of Thomas Cook Group and Group Chief Executive Officer of Thomas Cook Germany.

Michael Friisdahl – Chief Executive Officer – North America Thomas Cook Group plc
Before the merger, Michael Friisdahl was Chief Executive Officer of MyTravel Group North America. Previously, he had served as president, MyTravel Group North America and before that was president of MyTravel Group Canada. Michael Friisdahl began his career in Canada with Nordic Tours, a company that had been founded by his family and subsequently acquired by Abercrombie & Kent. In 1987, he re-purchased Nordic Tours and expanded it to become Canada's first national wholesaler consolidator. In 1999 the Nordic Travel Group and Holiday House merged to create a national full-service FIT wholesale organisation called The Holiday Network. Michael Friisdahl was President and Chief Executive Officer of The Holiday Network when it was acquired by MyTravel plc in May 2000.

Ralf Teckentrup – Chief Executive Officer – Airlines Germany Thomas Cook Group plc
Member of the Management Board of Thomas Cook AG.

In addition to his role as Group Chief Executive Officer of the Group's German airline, Condor, Ralf Teckentrup is in charge of purchasing and IT for Thomas Cook Germany. He has served on the Board of Thomas Cook AG since 2004. He began his career at Lufthansa AG, where he was closely involved in reorganisation projects and cost-cutting programmes. He joined the airline's executive board in 1992, going on to become Senior Vice President controlling and Executive Vice President for network management and marketing for Lufthansa's passenger business. Following a reorganisation in 2003, he became responsible for the passenger airline's network management, IT, airport infrastructure and purchasing.

Sam Weihagen – Chief Executive Officer – Northern Europe Thomas Cook Group plc
Sam Weihagen has been in travel for the past 32 years and has run the Northern Europe division as Group Chief Executive Officer since 2001. Sam was the former MyTravel Northern Europe Chief Executive and was a MyTravel plc Board member from 2004 until the merger. During his long service with the Company Sam has served the Company in several capacities, including commercial director, with responsibility for purchasing and flight planning. Sam also serves as chairman of the Tour Operating Federation in his native Sweden.



Dr Jürgen Büser – Chief Financial Officer – Thomas Cook UK & Ireland

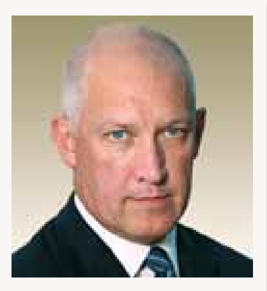
Jürgen Büser is responsible for strategic development, finance, tax, information technology and procurement for Thomas Cook UK Ltd. Prior to this, Jürgen worked for Thomas Cook AG in Germany for three years as Group head of controlling and M&A. Before joining Thomas Cook, Jürgen occupied senior positions within Siemens Financial Services international consulting firm, Booz Allen & Hamilton and Westdeutsche Landesbank, Germany's largest public sector bank.

Pete Constanti – Executive Director – Holidays Division Thomas Cook UK & Ireland

An executive Director since 2005, Pete Constanti has 24 years' travel industry experience, working for ILG and then Sunworld where he was HR Director. In his current role, Pete is responsible for the operational and service elements of the enlarged tour operating business for Thomas Cook UK. This includes call centre operations, pre- and post-departure customer services, overseas purchasing and overseas operations, as well as the Company's hotel interests.

Ian Derbyshire – Executive Director – Holidays Division Thomas Cook UK & Ireland

Ian Derbyshire is Thomas Cook's executive Board Director for the Holidays Division, responsible for the yield, product and publishing functions of Thomas Cook, JMC, Sunset, Thomas Cook Signature and Thomas Cook Sports Ian Derbyshire joined the business in 2000. Prior to joining Thomas Cook, Ian held senior positions within the leisure and travel sector with companies such as Holiday Autos, The Rank Group and Co-op Travel and has 22 years of travel experience.



Mark Nancarrow – Managing Director – Financial Services Thomas Cook

Mark Nancarrow came to Thomas Cook from Egg, where he had risen to become Chief Executive Officer. Previously, he had served as Egg's Chief Information Officer, Chief Financial Officer and Chief Operating Officer. Before that, he had ten years' experience at HSBC, where his responsibilities included credit cards, central operation and business re-engineering. Trained as an accountant, he has also worked for Unilever and Shell.

Frank Pullman – Executive Director – Airline Thomas Cook UK & Ireland

Following the merger, Frank was appointed executive Director for the combined airline and is now responsible for Thomas Cook Airlines. Frank has 37 years' travel experience. He joined BEA as an engineer and remained with what later became British Airways for the next 21 years, holding various senior positions including management of four terminals at Heathrow. After running the airline's worldwide cargo operation, he left to become managing director of Luton Airport in 1991. Frank Pullman joined MyTravel in 2000 as managing director of Sun Cruises. Three years later, he returned to his roots in aviation to become managing director of MyTravel Airways.

CORPORATE SOCIAL RESPONSIBILITY

As one of the world's most respected travel brands, we are proud that our activities can bring economic benefit to the destinations we visit, as well as positive cultural exchange. At the same time we recognise our potential impact on the environments, communities and cultures of these places. So we aim to operate in a responsible and sustainable way.

This is not philanthropy. Thomas Cook founded our business with clear social and educational intentions. But today corporate social responsibility (CSR) goes much further. It is a core business risk issue, going to the heart of our acceptance by customers, investors, the public, and destination governments and communities – especially in relation to the environment. It is an investment in our brand and a responsibility to shareholders and other stakeholders. The merger has given us the opportunity to embed CSR more deeply into the organisation – a process I am supporting personally.

We are bringing together two companies' CSR policies, structures and reporting systems. We want to do this well, to set standards that befit an industry leader. It will take time. We have begun the journey, but are not yet where we want to be. If you are interested in our progress, please visit the CSR section of our website at www.thomascookgroup.com for a regularly updated view of our emerging policies and practice.

Manny Fontenla-Novoa, Group Chief Executive Officer

OUR VIEW OF CSR

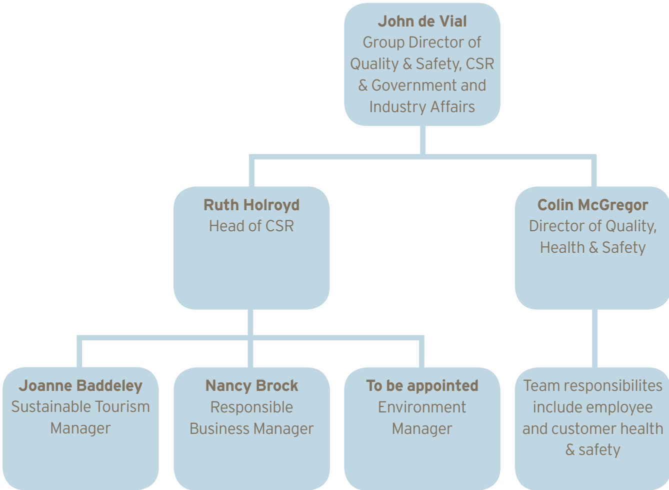
As part of our mission to 'perfect the personal leisure experience', we are committed to developing, operating and marketing our business sustainably. We define CSR as 'operating responsibly to minimise negative and enhance positive environmental, social and economic impact: ensuring the long-term sustainability of our business and of the resources on which we depend'.

OUR CSR STRUCTURE

CSR is recognised as a crucial Group Board issue. The Board's Health, Safety and Environmental Committee, chaired by non executive Director Roger Burnell, monitors the activities of our operatin g companies. It oversees the management of health, safety and environmental risks and impact on our activities, and the development and implementation of our Group Health, Safety and Environmental Policy.

Both Thomas Cook and MyTravel appointed CSR professionals in 2004 to increase their focus on destination and environmental impacts. The merger in 2007 provided the opportunity for a step-change: we have created a new CSR department with a dedicated team of four, reporting to the Group Director of Quality and Safety, Corporate Social Responsibility and Government and Industry Affairs – see Figure 1.

Figure 1: How we manage CSR



The Group Director of Quality and Safety, Corporate Social Responsibility and Government and Industry Affairs oversees development and implementation of policy, reporting directly to the Group CEO. Reporting to him are the Director of Quality, Health & Safety (whose team's responsibilities include both customer and employee health and safety) and the Head of CSR.

The Head of CSR manages a team of three:

- The Responsible Business Manager has responsibility for our impacts on **home communities**, including our relationships with suppliers in our source markets.
- The Sustainable Tourism Manager has responsibility for our resource and social impacts in **destination communities**, including our relationships with local suppliers.
- The Environmental Manager has responsibility for our **environmental** impacts including aviation, climate change, domestic energy consumption and waste management issues.

PARTNERS

We work with a number of key partners including:

Federation of Tour Operators (FTO): we are an active member of the FTO's Responsible Tourism Committee. Since 2004 we have been developing a supply chain management system with the FTO: we now encourage overseas suppliers such as hotels to allow independent auditing of their performance across a wide range of sustainability criteria.

The Travel Foundation: we are a major fundraiser and partner for this UK charity, which works with the travel industry to protect and enhance the natural environment and improve the well-being of destination communities. For more information, see www.thetravelfoundation.org.uk.

Enable Holidays: since 2005 we have worked in partnership with this specialist firm to sell holidays for people with impaired mobility.

WRAP: this UK government sponsored agency has been working with our procurement teams to help us use more recycled paper.

COMMUNICATING THE ISSUES

We cannot achieve our goals without the support of customers, employees and suppliers. It is often their actions that make the real differences.

> We aim to inform **customers** about sustainable travel and the Travel Foundation in all our brochures, websites, inflight publications, resorts and guide books.

> We devote considerable effort to informing **employees** about CSR, why it matters to the business and how they can contribute.

> We have made our **suppliers** a key part of our CSR activity, through an increasingly effective supply chain management programme.

SUPPLY CHAIN MANAGEMENT

Our social, economic and environmental impacts are closely linked with those of our suppliers in the destinations we serve – particularly accommodation providers. We give them information and education on sustainability, and encourage them to use the Travelife Sustainability System – a one-stop online resource for tourism businesses.

Since 2004 we have been working with the FTO to develop a supply chain management system that will help us ensure that our suppliers meet health, safety and environmental standards consistent with our own policies and standards. We now encourage overseas suppliers, such as accommodation providers, to allow independent auditing of their performance across a wide range of sustainability criteria. These include such areas as environmental management, employment issues and involvement with local communities.

TREATING CUSTOMERS RESPONSIBLY

Protecting our customers' health and safety is a primary responsibility – an essential part of the quality and strength of our brand. The merger has enabled us to create a new Group Health and Safety department to risk-manage our property, transport and excursion portfolio, minimising risks to our customers and therefore to our operating businesses.

We actively seek customer feedback on all aspects of their holiday experience, and make improvements where necessary. In 2007 our customer service scores showed good year on year improvements and for the second year running the volume of complaints reduced.

TREATING EMPLOYEES RESPONSIBLY

We have more than 30,000 employees worldwide. Our success depends absolutely on how well we recruit, develop, train and retain them. All areas of the business offer competitive and rounded benefits packages, including employee discounts on our holidays. In the UK, our Investors in People accreditation confirms our commitment to improving performance and managing and developing our people effectively.

Our 2006/07 UK and Ireland staff survey drew a high response and a generally enthusiastic view of the Company: 71 per cent of employees responded, and 79 per cent expressed satisfaction with working for us.

TREATING HOME COMMUNITIES RESPONSIBLY

We want to play an active part in the communities where most of our people live and work. Thomas Cook has a tradition of charitable donations, and of supporting voluntary activity and fundraising by employees. We are currently developing a more co-ordinated approach, including creation of the Thomas Cook Foundation as the primary vehicle for the Group's corporate giving and for our support of employee volunteering and fundraising. We also aim to focus our community and charitable support more tightly on causes related to children, education and the environment.

During the past year the business, our customers and our employees raised more than £1.2 million for charitable causes including local community projects, the Travel Foundation and the new Thomas Cook Children's Critical Care Unit at King's College Hospital.

TREATING DESTINATION COMMUNITIES RESPONSIBLY

Whole communities, regions and nations rely on tourism for economic development and even survival. When tourism is managed sustainably, it is a power for good: for education, understanding, relief from poverty, sustainable development and positive social change.

Our long-term mission is that everything we do should be sustainable and responsible, in all product areas and markets. We will keep doing more to understand our impacts on destinations, and to ensure they are favourable.

The Travel Foundation has become a key partner in this. We support the Travel Foundation as an active partner and in 2007 raised over £500,000 towards its projects in destination communities. We have also been supporting the FTO led Travelife award scheme for hotels and other tourism partners covering areas such as environmental management, employment issues and involvement with local communities.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

TREATING THE ENVIRONMENT RESPONSIBLY

We are very committed to doing as much as we can to protect the resources on which our business depends. We constantly strive to improve our environmental performance and minimise negative impacts resulting from our operations. Increasingly, this includes working with suppliers to help reduce the impacts of their operations.

We recognise that our aviation operations raise issues over energy use, carbon emissions and noise. We aim to reduce our impacts progressively. Recent developments have included new winglets on our Airbus A320/21 aircraft, high-tech coatings to optimise aerodynamics and reduce aircraft wash, enhanced engine wash procedures and new Green Approach landing procedures. In Northern Europe our websites and confirmation emails now offer passengers the option to buy carbon offsets, and from next year all internal air travel in Northern Europe will be covered by carbon offset schemes. The Northern European airline have led the charter airline industry on waste disposal and recycling initiatives, directly influencing various departure and destination airports.

We were the first major travel company to produce brochures on recycled paper. Now 85 per cent of our brochures use recycled paper. Each year this will divert over 3,500 tonnes of waste paper from landfill and save some 3,400 tonnes of CO_2 – equivalent to taking 10,700 cars off the road.

The consolidation of our offices since the merger means we are currently unable to report in detail on energy and waste consumption. But the consolidation should itself increase efficiency and we are working with experts to analyse energy use and identify opportunities for improvement.

KEY PRIORITIES FOR 2008

This table outlines some of our principal CSR goals for the current year. We intend to report our performance against these targets in our next Annual Report. More details are available online at http://csr.thomascookgroup.co.uk

Customers

> Continue reducing customer complaints through effective quality assurance and problem resolution.

> Improve pre-departure information.

> Share best practice across the Group.

Health & safety

> Develop and apply Group-wide health and safety policies and procedures.

> Converge legacy reporting systems to enable consistent health and safety reporting, and bring together property portfolio and safety information on a single central system.

> Maintain continuing professional development of health and safety staff, and train appropriate members of staff in their health and safety responsibilities.

> Review aviation safety processes, particularly for in-resort suppliers of balloon, helicopter and light aircraft excursions.

Employees

> Consolidate legacy HR policies or create new policies as necessary.

> Share best practice across source markets and develop Group-wide approach to HR.

> Launch Sharesave scheme for employees.

> Maintain UK Investors in People accreditation.

Health & safety

> Review Group-level employee health and safety management structures.

> Implement new online accident and incident reporting system.

> Give all employees access to user-friendly health and safety management system.

> Continue remediation work arising from completed fire risk assessments.

Home communities

> Maintain partnership fundraising for organisations such as the Travel Foundation.

> Launch the Thomas Cook Foundation as primary vehicle for our corporate giving and support of employee volunteering and fund raising.

> Focus our 2008 giving on children, education and the environment.

Destination communities

> Develop a specific sustainable tourism policy.

> Set up working groups across our source markets to share best practice and provide Group-wide consistency.

> Raise another £300,000 for the Travel Foundation.

> Audit a further 100 properties against Travelife criteria.

> Train more employees in sustainable tourism.

> Send out more sustainability information to suppliers.

> Expand animal welfare information on our customer websites.

Environment

> Create new and expanded Group environmental policy.

> Set up working groups across source markets to share best practice and provide Group-wide consistency.

UK specific

> Establish environmental management system and reporting on office energy and waste management.

> Airline: develop carbon strategy and report on CO_2 emissions.

Northern Europe

> Airline: reduce fuel consumption per passenger km by 1 per cent.

> Hotels: ensure all Sunwing resorts EU fully implement EU Flower certification criteria and increase the number of external hotels certified under our environmental programme.

> Offices: reduce energy consumption by 10 per cent.

GROUP DIRECTORS' REPORT

The Directors present their Annual Report, together with the financial statements and independent auditors' report for the period from incorporation on 8 February 2007 to 31 October 2007.

On 19 June 2007, Thomas Cook AG ('TC AG') merged with MyTravel Group plc to become Thomas Cook Group plc ('TCG plc'). For statutory purposes the transaction is treated as a business combination effected by a new parent company, TCG plc. Whilst for accounting purposes this is a reverse acquisition of TCG plc by TC AG, the overall effect is that TC AG is treated as the acquirer of both TCG plc and MyTravel Group plc. The statutory results for TCG plc for the year to 31 October 2007, therefore, include the full year of trading for TC AG and the trading of MyTravel Group plc for the period from 19 June 2007 to 31 October 2007. The comparative information includes the full year of trading of TC AG for the year ended 31 October 2006 and none of the MyTravel Group plc results. All the TC AG results have been prepared based on the accounting policies referred to in note 2.

ENHANCED BUSINESS REVIEW

Thomas Cook Group plc continues the combined businesses of Thomas Cook AG and MyTravel Group plc following their merger on 19 June 2007. The principal business of the combined group is the supply of packaged holidays in the major European leisure travel markets and Canada.

Thomas Cook Group plc was incorporated on 8 February 2007 as Shakespeareco plc. It changed its name to Thomas Cook Group plc on 12 February 2007. On 19 June 2007 the Company completed the merger of Thomas Cook AG and MyTravel Group plc by the acquisition of the entire issued share capital of Thomas Cook AG and by way of a scheme of arrangement approved by the High Court on 18 June 2007, the acquisition of the entire issued share capital of MyTravel Group plc. In each case the acquisition was made in exchange for the issue of shares in the Company to the former shareholders of those companies. As a consequence, the Company became the holding company of the combined group.

A comprehensive review of the development and performance of the Group during the period from the incorporation of the Company to 31 October 2007 is included in the Business Review on pages 25 to 27 and Financial Review on pages 28 to 35.

RESULTS AND DIVIDENDS

The profit after taxation for the period ended 31 October 2007 amounted to €225.5 million. The Directors recommend a final dividend of 5p per ordinary share. No interim dividend was paid during the period.

DIRECTORS

The Directors who served during the period were:

J S Allkins (appointed 11 February 2007 and resigned 28 March 2007)
D P Allvey (appointed 28 March 2007)
M E Beckett (appointed 28 March 2007)
J M Bloodworth (appointed 28 March 2007 and resigned 31 December 2007)
R D Burnell (appointed 28 March 2007)
Dr P Diesch (appointed 28 March 2007)
M Fontenla-Novoa (8-11 February 2007 and re-appointed 28 March 2007)
L Heuberg (appointed 28 March 2007)
H Klein (appointed 1 July 2007)
B Lerenius (appointed 1 July 2007)
P T McHugh (appointed 8 February 2007 and resigned 31 December 2007)
Dr T Middelhoff (appointed 28 March 2007)
Dr A J Porter (appointed 28 March 2007)

Further details regarding the continuing Directors are set out on pages 36 and 37. Details of the interests of the Directors required to be notified under Disclosure and Transparency Rule 3.1.2R at the end of the period and changes during the period are set out in the Remuneration Report at pages 56 to 64.

PRINCIPAL RISKS AND UNCERTAINTIES

The following factors may affect the Group's operating results, financial condition and/or the trading price of the Company's shares. The risk factors described below are those which the Directors believe are potentially significant but this should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties related to an investment in the Company.

Trading risks

The trading performance of the Group may be affected by a number of factors outside its control, including:

- wars, international unrest, political uncertainty or additional security requirements affecting air travel;
- acts of terrorism, particularly in key tourist destinations, or epidemics such as avian flu, or the threat of either, which may materially disrupt or adversely affect international travel;
- earthquakes or other natural disasters in key tourist destinations;
- weather conditions, both in places where its customers live and in key tourist destinations;
- changes in customer preferences or behaviour;
- increased operating costs;
- increases in government taxes or levies;
- labour shortages or other adverse labour market conditions, increased labour activity or additional health and safety regulation; and
- general economic conditions in its key markets of the UK and Ireland, Germany, Austria, Northern Europe, Belgium, the Netherlands, France, Poland, Czech Republic, Hungary and Canada.

These factors may affect the Group by, among other things, reducing demand as its potential customers choose not to, or become unable to, travel. Reductions in demand in an industry with capacity that in the short term is fixed, for example, in terms of pre-arranged aircraft seats or accommodation, can lead to overcapacity with associated pressure on margins. These factors may also affect booking patterns, for example, increased political and economic uncertainty may lead to an increased propensity for customers to book closer to departure, which as a result of relative inflexibility in capacity could increase the risk that holidays which remain unsold late in the season will have to be sold at prices that are significantly less than the costs of providing them, or will remain unsold. Adverse impacts arising as a result of trading could necessitate or cause a write-down or impairment of the Group's goodwill or intangible assets.

GROUP DIRECTORS' REPORT CONTINUED

Risk of a decrease in the use of cash

A primary part of the Group's foreign currency services business depends on cash exchanges. As the use of credit, debit and smart cards becomes more widespread the use of cash may decrease. The Group's foreign currency services business would be adversely affected if cash were to become obsolete or significantly less utilised. As many banks allow customers to withdraw cash from automated teller machines ("**ATMs**") in local currencies, people may convert currencies in this manner rather than by exchanging cash at a bureau de change. The Group's foreign currency services business would be adversely affected to the extent that travellers obtain more of their local currency by withdrawing it from ATMs.

Competition

In its principal markets, the Group will face competition from a range of tour operators, some of which are large and well-established. It will also face competition from internet-based distributors and low fare airlines. Competitive pressures could affect the ability of the Group to secure bookings at satisfactory levels and acceptable margins.

Regulatory and legal risks

Throughout its operations, the Group requires regulatory licences and approvals. These regulatory requirements vary depending on the area of operation and the specific activity. Failure to satisfy any necessary regulatory criteria or requirements (whether financial or operational), or changes which may be in force from time to time, could result in the suspension, revocation or non-renewal of one or more of the necessary licences which, in certain cases, depending on the particular licence or approval concerned, could result in the cessation of an operation. In particular, in the European countries in which the Group's airlines operate, an air carrier is permitted to operate airline services only if it is majority-owned, and effectively controlled, by EEA member states or their nationals. The carrier must be able to demonstrate this at any time. Failure to do so may result in the revocation of, or a refusal to issue, the carrier's operating licence or route licences. Accordingly, the Company must be and remain majority-owned and effectively controlled by EEA member states or their nationals in order for its airlines to maintain their operating and route licences. In addition, there may be national ownership restrictions applicable to the grant of route licences to the Group's airlines.

Based on the Company's share register as at 28 January 2008 (the latest practicable date prior to the publication of this document), less than 16 per cent of the Company's Shares are held by persons other than nationals of EEA member states. The Articles give the Directors powers to limit the ownership of the Company's shares by non-EEA nationals and a number of additional powers to enforce this limitation, including the right to require a shareholder to sell its shares if appropriate evidence of nationality is not produced.

In addition, the airline industry is heavily regulated and changes to regulations frequently occur. For example, new regulations have recently been proposed which could impose stricter requirements in relation to night-flying and environmental emissions. It may not be possible to pass on to customers increased costs which may result from new regulations, or otherwise mitigate their impact, and the Group's financial performance could therefore be adversely affected.

Foreign currency services could be targeted by money launderers. The Group's foreign currency services business is required to comply with applicable anti-money laundering, antiterrorism and other laws and regulations in the UK, Germany and other jurisdictions in which it operates. While the Group has policies and procedures aimed at detecting and preventing the use of its foreign currency services business for money laundering activities, such policies and procedures may not completely eliminate instances where such business is used by other parties to engage in money laundering and other illegal and improper activities. To the extent the Group may fail to fully comply with applicable anti-money laundering laws and regulations, the relevant government agencies who supervise such business have the power and authority to impose fines and other penalties on the Group. In addition, the reputation and/or goodwill of the Group could potentially be adversely affected if third parties use its foreign currency services business for money laundering or other illegal or improper purposes.

Changes in law otherwise affecting tour operators, travel agencies and/or their businesses could result in the Group having to assume additional or increased liability and/or having increased exposure to litigation by customers and other third parties.

Interest rate, exchange rate and commodity risks

Interest rate risk arises from the extent to which the Group holds interest rate-sensitive assets or is exposed to interest rate-sensitive liabilities. Exchange rate risk arises principally where the Group's revenue and expenditure are transacted in different currencies or assets and liabilities are denominated in currencies other than the Euro. The Group's exposure to fluctuations in exchange rates can be categorised as follows:

- Transactional exposure relates primarily to the cost of acquiring accommodation and aircraft capacity. These costs are in many cases denominated in US dollars or in local currencies of the places where holidays are provided, which may differ from the currencies in which holidays are priced to customers. In addition, the Group prices its holidays in brochures published a number of months in advance of the time that people travel and the exchange rates used by the Group to determine those prices may therefore differ significantly from those applicable at the time costs are incurred in providing those holidays and/or receipts are received.
- Translation exposure arises because investments in foreign subsidiaries or other net assets are held in currencies other than Euro.

The Group's principal exposure to exchange rate fluctuations is in relation to the Euro/sterling, Euro/US dollar and sterling/US dollar exchange rates.

Commodity risk, which arises from the Group's aviation operations, relates to the risk of variations in the cost of jet fuel, which over recent years has experienced very large movements.

Operational risks

Operational risks include those which could result from a potential breakdown in individual business units or the Group's control of its human, physical and operating resources. The potential financial loss or loss of reputation arising from failures in internal controls, flaws or malfunctions in computer systems, and poor product design or delivery, all fall within this category.

Aircraft and hotel properties used in the operations of the Group are exposed to the risk of losses from, among other things, accidents, terrorist attacks, acts of sabotage and natural catastrophes.

The Group may not be insured against all such losses, including liability and expenses arising as a consequence of any resulting civil law claims. Furthermore, the occurrence of such events, whether affecting the Group's own aircraft or properties or those of third parties, or other factors giving rise to adverse publicity (whether justified or not), may result in a reduction in demand for the Group's products, harm its reputation or otherwise affect adversely the public perception of the Group or of the businesses which it operates.

The Group's ability to receive, process and manage reservations, and other critical business and operational functions, including its financial and aviation systems, depends on the efficient and uninterrupted operation of its IT systems. These systems are vulnerable to damage, power loss, computer viruses, third party disruptions, fire and similar events. Any significant disruption to the Group's IT systems would adversely affect its ability to carry on its businesses efficiently.

In addition, as with all companies for which the internet is an important sales channel, the Group is reliant on the availability to customers of its websites. Disruption to the Group's websites, however caused, could adversely affect the Group's businesses.

The Group is dependent on third parties for certain aspects of its businesses and operations. For example, the Group has outsourced substantial IT and infrastructure to third parties. It is also supplied with various services, including aircraft maintenance and catering, by Lufthansa. Failure by those third parties to maintain critical services or supplies could lead to disruption of those businesses and operations, which could affect adversely the Group's results.

Pension obligations

The Group operates a number of defined benefit pension schemes (the "**DB Schemes**"). The Group's obligations in respect of the DB Schemes are partly covered through pension funds and are partly accrued for on the balance sheet. There are various risks which could affect adversely the funding and/or liabilities of the DB Schemes and, consequently, the Group's funding obligations, liabilities and/or profits, such as a significant adverse change in the market value of the pension assets of the DB Schemes, an increase in pension liabilities, longer life expectancy of pension plan members, later retirement ages or the trustees of the DB Schemes altering investment strategy. As at 31 October 2007, the Group's DB Schemes, were in a combined net deficit position of €251.4 million. Any increase in the deficit in the DB Schemes may result in a need to increase the Group's pension contributions. Any increase in such contributions could have an adverse impact on the Group's financial condition and the results of its operations.

The Pensions Regulator in the UK has power in certain circumstances to issue contribution notices or financial support directions which, if issued, could result in the Company or members of the Group becoming subject to significant liabilities. The Pensions Regulator may issue a contribution notice to any employer in the DB Schemes or any person who is connected with or is an associate of any such employer where the Pensions Regulator is of the opinion that the relevant person has been a party to an act, or a deliberate failure to act, which had as its main purpose (or one of its main purposes) the avoidance of pension liabilities. The Pensions Regulator can only issue a contribution notice where it believes it is reasonable to do so. A person holding, alone or together with its associates, directly or indirectly, one-third or more of the voting power of the Company could be the subject of a contribution notice.

The terms "associate" and "connected person", which are taken from the Insolvency Act 1986, are widely defined and could catch significant shareholders of the Company.

If the Pensions Regulator considers that any of the employers participating in the DB Schemes are "insufficiently resourced" or a "service company", it may impose a financial support direction requiring any member of the Group, including the Company, or any person associated or connected with such an employer, to put in place financial support in relation to one or more of the DB Schemes.

Such a financial support direction might involve, among other things, putting in place a parent company guarantee for the liabilities of the relevant DB Scheme.

Liabilities imposed under a contribution notice or financial support direction may be up to the difference between the value of the assets of the DB Scheme concerned and the cost of buying out the benefits of members and other beneficiaries of the relevant DB Scheme. In addition, the Pensions Regulator is required to be notified of certain events. Events may occur in the future which need to be notified to the Pensions Regulator. A notifiable event could result in the Pensions Regulator exercising his power to impose a contribution notice or financial support direction.

In practice, the risk of a contribution notice being imposed may restrict the freedom of the Group to restructure itself or undertake certain corporate activities without first seeking agreement of the trustees of the DB Schemes and, possibly, the approval of the Pensions Regulator. Additional security may need to be provided to the trustees of the DB Schemes before certain corporate activities can be undertaken, and any additional funding of the DB Schemes may have an adverse effect on the Group's financial condition and the results of its operations.

TRANSACTION AND INTEGRATION RISKS

The Board believes that the annualised pre-tax cost benefits arising from a combination of the MyTravel and Thomas Cook businesses will be at least €200 million per annum once the full benefits of the Merger are realised. This is an increase of €60 million from the synergies expected at the date of the Merger. It is expected that the full benefits will be realised within 24 to 30 months following completion of that merger in June 2007. However, there is a risk that these cost benefits may fail to materialise or that they may be lower than have been estimated, which may have an impact on the profitability of the Group going forward. While a number of key decisions have already been taken and are in the process of being executed, if the remaining integration process proves more difficult than anticipated, or if the focus on this process impacts on the performance of its business, there is also a risk to the results or operations of the Group. This integration may take longer than expected, or difficulties relating to the integration may arise. It is estimated that the integration and reorganisation costs associated with achieving these cost benefits

GROUP DIRECTORS' REPORT CONTINUED

will be no more than the annualised pre-tax cost benefits arising from the combination (including capital expenditure), and will be incurred over the period of 12 to 18 months following Completion, although it is expected that these will be substantially front-ended. These costs have resulted in an exceptional charge in the accounts of the Group in the current financial year and are likely to do so in the next financial year. There is a risk that the integration and reorganisation costs associated with achieving these cost benefits will exceed the estimated cost.

RISKS RELATING TO INVESTMENT IN THE COMPANY'S SHARES

Share price fluctuations and market conditions

Investors should be aware that the value of an investment in the Company's Shares may go down as well as up.

The market value of shares can fluctuate and may not always reflect the underlying asset value. A number of factors outside the control of the Company may impact on its performance and the price or liquidity of the Company's Shares, including the operating and share price performance of other companies in the industries and markets in which the Group operates, speculation about its business in the media or the investment community, changes to its revenues or profit estimates, the publication of research reports by analysts and general market conditions.

Arcandor's position as majority shareholder

Arcandor AG holds (directly or indirectly) 52 per cent of the Company's shares (on a fully diluted basis). As a result, Arcandor will have the voting majority necessary to block or adopt certain resolutions of the Company's shareholders. Arcandor will therefore be able to exercise influence over the Company, although the relationship agreement between Arcandor, MyTravel Group plc and the Company states, as a general principle, that the Group will carry on its business independently of Arcandor, having regard to the interests of the Company's shareholders as a whole. The concentration of ownership may have the effect of delaying or deterring offers by third parties to purchase some or all of the outstanding the Company Shares or otherwise to bid for ownership of the Company. Such delay or deterrence could deprive holders of the Company Shares of opportunities to receive a premium for the Company Shares as part of a sale of the Company, and that possibility may prospectively have a negative effect of the market price for the Company Shares.

Further, although Arcandor agreed in the Relationship Agreement which it has entered into with the Company in June 2007 (the "**Relationship Agreement**") that neither it, nor any member of the Arcandor group, will (subject to certain exceptions) dispose of any of its holdings of the Company's shares for a period of 12 months following completion of the merger, the Arcandor group may subsequently sell all or part of its holding of the Company's shares. Such a sale could result in an increase in supply of the Company's shares in the market which would in turn negatively impact the market price for the Company's shares.

SHARE CAPITAL STRUCTURE

The share capital of the Company is divided into two classes of share. The Company's authorised ordinary share capital is €200,000,000 divided into 2,000,000,000 ordinary shares of €0.10 each and £50,000 divided into 50,000 deferred shares of £1 each. Ordinary shares carry the right to the profits of the Company available for distribution and to the return of capital on a winding up of the Company. The ordinary shares carry the right to attend, speak and vote at general meetings of the company and are admitted to trading on the Official List of the London Stock Exchange. The deferred shares carry no right to the profits of the Company. On a winding up the holders of the deferred shares would be entitled to receive an amount equal to the capital paid up on each deferred share. The holders of the Deferred Shares are not entitled to receive notice of or to attend and/or speak or vote (whether on a show of hands or on a poll) at general meetings of the Company.

The Board intends to proceed with a programme of repurchasing around €375 million worth of the Group's shares, subject to obtaining the necessary shareholder approvals.

SHARE TRANSFER RESTRICTIONS

The Articles are designed to ensure that the number of the Company's shares held by non-EEA nationals does not reach a level which could jeopardise the Company's entitlement to continue to hold or enjoy the benefit of any authority, permission, licence or privilege which it or any of its subsidiaries holds or enjoys and which enables an air service to be operated (each an **"Operating Right"**). In particular, EC Council Regulation 2407/92 on licensing of air carriers requires that an air carrier must be majority-owned and effectively controlled by EEA nationals.

The Articles allow the Directors, from time to time, to set a "Permitted Maximum" on the number of the Company's shares which may be owned by non-EEA nationals at such level as they believe is in compliance with the Operating Rights, provided that the Permitted Maximum shall not be less than 40 per cent of the total number of issued shares.

The Company maintains a separate register (the "**Separate Register**") of shares in which non-EEA nationals, whether individuals, bodies corporate or other entities have an interest (such shares are referred to as "Relevant Shares" in the Articles). An interest in this context is widely defined (see below). The Directors may require relevant members or other persons to provide them with information to enable them to determine whether shares are, or are to be treated as, Relevant Shares. If such information is not provided then the Directors will be able, at their discretion, to determine that shares to which their enquiries relate be treated as Relevant Shares. Registered shareholders will also be obliged to notify the Company if they are aware either (a) that any share which they hold ought to be treated as a Relevant Share for this purpose; or (b) that any share that they hold, which is treated as a Relevant Share, should no longer be so treated. In this case, the Director shall request such information and evidence as they require to satisfy themselves that the share should not be treated as a Relevant Share and, on receipt of such evidence, shall remove particulars of the share from the Separate Register. If the Directors determine that such action is necessary to protect any Operating Right due to the fact that an Intervening Act (an "**Intervening Act**" being the refusal, withholding, suspension or revocation of any Operating Right or the imposition of materially inhibiting conditions or limitations on any Operating Right in either case, by any state or regulatory authority) has taken place or is contemplated, threatened or intended, or the aggregate number of Relevant Shares is such that an Intervening Act may occur or the ownership or control of the Company is such that an Intervening Act may occur, the Directors may, among other things: (i) identify those shares which give rise to the need to take action and treat such shares as affected shares ("**Affected**

Shares") (see below); or (ii) set a Permitted Maximum on the number of Relevant Shares which may subsist at any time (which may not, save in the circumstances referred to below, be lower than 40 per cent of the total number of issued shares) and treat any Relevant Shares in excess of this Permitted Maximum as Affected Shares (see below). The Directors may serve a notice (an "**Affected Share Notice**") in respect of any Affected Share. An Affected Share Notice can, if it so specifies, have the effect of depriving the registered holder of the right to attend, vote and speak at general meetings which he would otherwise have had as a consequence of holding such shares. Such an Affected Share Notice can, if it so specifies, also require the recipient to dispose of the Affected Shares (so that the Relevant Shares will then cease to be Affected Shares) within 21 days or such longer period as the Directors may determine. The Directors are also given the power to sell such Affected Shares themselves where there is non-compliance with an Affected Share Notice at the best price reasonably obtainable at the relevant time on behalf of the shareholder.

In deciding which shares are to be dealt with as Affected Shares the Directors in their sole opinion will determine which Relevant Shares may give rise to the fact of risk of an Intervening Act occurring and, subject to any such determination, will have regard to the chronological order in which particulars of Relevant Shares have been, or are to be, entered in the Separate Register unless to do so would in the sole opinion of the Directors be inequitable. If there is a change in any applicable law or the Company or any subsidiary receives any direction, notice or requirement from any state or regulatory authority, which, in either case, necessitates such action to overcome, prevent or avoid an Intervening Act, then the Directors may either:

(i) lower the Permitted Maximum to the minimum extent that they consider necessary to overcome, prevent or avoid an Intervening Act; or

(ii) resolve that any Relevant Shares shall be treated as Affected Shares and the Conversion Permitted Maximum. The rights of the Directors referred to above apply until such time as the Directors resolve that grounds for the making of a determination have ceased to exist, whereupon the Directors must withdraw such determination. The Permitted Maximum is set at 40 per cent. This Permitted Maximum may be varied by the Directors. If the Directors resolve to vary the Permitted Maximum to deal with shares as Affected Shares or relax the ownership limitations, they shall publish in at least one national newspaper in the United Kingdom (and in any other country in which the shares are listed) notice of the determination and of any Permitted Maximum. The Directors shall publish, from time to time:

(i) information as to the number of shares particulars of which have been entered on the Separate Register; and

(ii) any Permitted Maximum which has been specified.

The Directors may not register any person as a holder of shares unless such person has furnished to the Directors a declaration, together with such evidence as the Directors may require, stating (a) the name and nationality of any person who has an interest in any such share and, if the Directors require, the nature and extent of such interest; or (b) such other information as the Directors may from time to time determine. The Directors may decline to register any person as a shareholder if satisfactory evidence of information is not forthcoming.

Existing holders of Shares will be recorded on the Special Register unless and until they have certified, to the satisfaction of the Company, that they are EEA nationals.

A person shall be deemed to have an "interest" in relation to TCG Shares if:

(i) such person has an interest which would (subject as provided below) be taken into account, or which he would be taken as having, in determining for the purposes of Part 22 of the Companies Act 2006 whether a person has a notifiable interest; or

(ii) he has any such interest as is referred to in Part 22 of the Companies Act 2006 but shall not be deemed to have an interest in any shares in which his spouse or any infant, child or stepchild (or, in Scotland, pupil or minor) of his is interested by virtue of that relationship or which he holds as a bare or custodian trustee under the laws of England or as a simple trustee under the laws of Scotland, and "interested" shall be construed accordingly.

AGREEMENTS RESTRICTING THE TRANSFER OF SHARES

Under the Relationship Agreement, Arcandor AG has agreed to certain restrictions on the ability of it and other members of the Arcandor group of companies to acquire further shares in the Company. Under these restrictions, members of the Arcandor Group may not, subject to certain exceptions, acquire further shares in the Company without the prior consent of the Board, provided that such consent will be given for a purchase of up to 5 per cent of the Company's issued share capital unless such purchase would prejudice the Company's ability to maintain the free float required by the Listing Rules, or result in the Company becoming a close company.

APPOINTMENTS TO THE BOARD

Under the articles of association of the Company, the Company by ordinary resolution and the Board each has power to appoint a Director either to fill a vacancy or as an additional Director up to the maximum of twenty Directors. Any Director appointed by the Board shall retire at the subsequent Annual General Meeting.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The articles of association of the Company may be amended by a special resolution of the Company.

SUPPLIER PAYMENT POLICY

It is the Company's policy to comply with the terms of payment agreed with its suppliers. Where payment terms are not negotiated, the Company endeavours to adhere to suppliers' standard terms. As at 31 October 2007, the Company had no trade creditors. As such, the disclosure regarding the number of days' credit taken by the Company for trade purchases at 31 October 2007 is not possible.

ENVIRONMENTAL FACTORS

The Group takes seriously its responsibility towards the environment which is one of the key areas of our corporate responsibility strategy. Details of the Group's policies and initiatives in this area are set out on pages 40 to 42 of our Corporate Social Responsibility Report which is included in this Annual Report.

GROUP DIRECTORS' REPORT CONTINUED

EMPLOYEE FACTORS

The Group values highly the contribution made to its business by its employees across all areas of its operations. Details of our approach to the interests of our workforce are set out in more detail on pages 40 to 42 of our Corporate Social Responsibility Report.

MARKETPLACE

Regulatory compliance is treated as a minimum standard and the Board and executive management seek to operate beyond this through a combination of systems, procedures and controls to ensure our stakeholders are treated ethically, openly and with integrity.

AUTHORITY TO PURCHASE OWN SHARES

The Company's articles of association provide a general authority to purchase the Company's own shares, subject to the provisions of the Companies Acts. The Companies Acts provide that such a purchase must be authorised by the shareholders of the Company. No specific authority was in place on 31 October 2007. The Board intends to seek shareholder approval at an EGM to be held in March for a share buy back programme.

CORPORATE SOCIAL RESPONSIBILITY

The Group takes its corporate responsibility seriously and is committed to conducting its business in an ethical and responsible manner. Please refer to the separate Corporate Social Responsibility Report section of this Annual Report on pages 40 to 42.

POLITICAL DONATIONS

The Company has not made any political donations and will not seek authority of its shareholders to do so.

EMPLOYEE PARTICIPATION

The Company is committed to ensuring that as many of its employees as possible are given the opportunity to share in its success. The Company will propose a resolution at the 2008 Annual General Meeting to approve an all employee save as you earn scheme and share incentive plan both to benefit employees and to give additional incentives for them to assist in building its success.

MAJOR SHAREHOLDING NOTIFICATIONS

As at 28 January 2008, the Company had been notified, in accordance with rule 5 of the Disclosure Rules and Transparency rules of the UK Listing Authority of the following major shareholdings in the ordinary share capital of the Company:

Name	Number of shares held	% of issued capital
Arcandor AG	254,377,423	26.04
Karstadtquelle Freizeit GmbH[1]	254,377,423	26.04
Standard Life Investments Ltd	62,844,431	6.43
Pardus Capital Management LLC	57,338,759	5.87
Legal and General Group plc and/or its subsidiaries	36,801,045	3.77

[1]Karstadtquelle Freizeit GmbH is a wholly owned subsidiary of Arcandor AG.

DIRECTORS' DISCLOSURE STATEMENT

Each of the Directors at the date of approval of this report has confirmed that:

1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
2) the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

LIABILITY

All the information supplied in the Chairman's Statement on pages 6 and 7, the Chief Executive's Strategy Statement on pages 8 to 10, the Business Review on pages 25 to 27, the Financial Review on pages 28 to 35 and the Corporate Social Responsibility Report on pages 40 to 42 form part of the Directors' Report. Any liability for the information is restricted to the extent prescribed by the Companies Act 2006.

ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting of the Company to be held in April 2008 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the meeting.

AUDITORS

PricewaterhouseCoopers LLP and Deloitte & Touche LLP were appointed as joint auditors to fill a casual vacancy. The Directors will place a resolution before the Annual General Meeting to reappoint PricewaterhouseCoopers LLP as auditors for the ensuing year.

By order of the board

M J Vaux
Acting Company Secretary
30 January 2008

Registered office:
The Thomas Cook Business Park
Coningsby Road
Peterborough PE3 8SB

DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES INCLUDING ADOPTION OF GOING CONCERN BASIS

The Directors are responsible for preparing the Annual Report, Directors' Remuneration 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. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

> properly select and apply accounting policies;

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

> provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing these financial statements, the Directors are required to:

> select suitable accounting policies and then apply them consistently;

> make judgments and estimates that are reasonable and prudent[1];

> state whether applicable UK Accounting Standards 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GOING CONCERN

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

CORPORATE GOVERNANCE REPORT

Thomas Cook Group plc is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2006 by the Financial Reporting Council ('the Combined Code') for which the Board is accountable to shareholders. The following section of the report sets out how the Company applies the principles set out in the Combined Code.

THE BOARD

The Board regards as paramount the interests of the shareholders and is ultimately responsible for ensuring that the Group discharges its corporate governance responsibilities effectively. The Board also acknowledges its corporate governance responsibilities to the Group's customers, employees and other stakeholders.

BOARD AND COMMITTEE COMPOSITION

The full Board of Thomas Cook Group plc is as follows:

Dr T Middelhoff	(Non Executive Chairman)
M E Beckett	(Independent Non Executive Deputy Chairman)
J M Fontenla-Novoa	(Chief Executive Officer)
H-L Heuberg	(Chief Financial Officer)
D P Allvey	(Independent Non Executive Director)
R D Burnell	(Independent Non Executive Director)
Dr P Diesch	(Non Executive Director)
H Klein	(Independent Non Executive Director)
B Lerenius	(Independent Non Executive Director)
Dr A J Porter	(Independent Non Executive Director)

As all appointments of the Directors were made by the Board, each Director will retire and put himself forwards for re-appointment by the shareholders at the 2008 Annual General Meeting of the Company.

SENIOR INDEPENDENT DIRECTOR

Mr Beckett has been appointed as the Senior Independent Director.

The Board has appointed the following committees, comprised of the following members.

AUDIT AND RISK MANAGEMENT COMMITTEE

D P Allvey (Chairman of Committee)
M E Beckett
R D Burnell
Dr P Diesch
B Lerenius
Dr T Middelhoff

NOMINATIONS COMMITTEE

M E Beckett (Chairman of Committee)
R D Burnell
Dr P Diesch
Dr T Middelhoff
Dr A J Porter

MANAGEMENT DEVELOPMENT AND REMUNERATION COMMITTEE

M E Beckett (Chairman of Committee)
R D Burnell
Dr P Diesch
H Klein
Dr T Middelhoff
Dr A J Porter

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

R D Burnell (Chairman of Committee)
D P Allvey
M E Beckett
J M Fontenla-Novoa
H Klein

BOARD ATTENDANCE

The figures shown below are the number of Board and/or Board committee meetings attended by each Director out of the number convened during the time in which each such Director served on the Board or relevant committee during the period.

	Full Board[1]	Audit and Risk Management	Management Development and Remuneration	Nominations	Health, Safety and Environmental
J S Allkins	3/4	N/A	N/A	N/A	N/A
D P Allvey	7/8	4/4	N/A	N/A	1/1
M E Beckett	8/8	4/4	5/5	1/1	1/1
J M Bloodworth	5/8	N/A	N/A	N/A	N/A
R D Burnell	7/8	4/4	5/5	1/1	1/1
Dr P Diesch	6/8	4/4	3/5	1/1	N/A
J M Fontenla-Novoa	9/9	N/A	N/A	N/A	0/1
H-L Heuberg	8/8	N/A	N/A	N/A	N/A
H Klein	5/5	N/A	1/2	N/A	1/1
B Lerenius	5/5	1/1	N/A	N/A	N/A
P T McHugh	9/11	N/A	N/A	N/A	N/A
Dr T Middelhoff	8/8	2/4	5/5	0/1	N/A
Dr A Porter	6/8	N/A	4/5	0/1	N/A

[1] In order to consider the terms of the merger and listing and issues relating to them, a number of Board meetings were held prior to the appointment of the majority of the Board of Directors on 28 March 2007. This results in the different denominator figures above for Mr McHugh and Mr Fontenla-Novoa. Mr Klein and Mr Lerenius joined the Board on 1 July 2007.

OPERATION OF THE BOARD

The Board normally meets at least eight times per annum for scheduled Board meetings. The Board also meets as required on an ad hoc basis to deal with urgent business – including the consideration and approval of transactions.

The Board has approved a schedule of matters reserved for decision by the Board. This schedule can be viewed on the Group's website – www.thomascookgroup.com within the Corporate Governance Compliance Statement published on that website.

To facilitate swift and efficient operational management decisions, the Board has established an Executive Board sub-committee, the Finance and Administration Committee (comprised of the Chief Executive Officer and the Group Chief Financial Officer) which has delegated authority, within clearly identified parameters, in relation to day to day operational matters.

All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are complied with.

In addition, to ensure efficient and effective conduct of the administrative affairs of the Group, the Board has formally delegated authority to the Group Company Secretary and Assistant Group Company Secretary in relation to a series of administrative matters.

CHAIRMAN

The roles of Chairman and Chief Executive are distinct. Dr Middelhoff is the Non Executive Chairman, Mr Beckett is Non Executive Deputy Chairman and Mr Fontenla-Novoa is the Chief Executive Officer. The other significant commitments of the Chairman and Deputy Chairman are set out in their respective biographies on page 36.

COMMITTEES OF THE BOARD

The Board has established four standing committees to assist in the discharge of corporate governance responsibilities. The full terms of reference for these committees are included within the Thomas Cook Group plc Corporate Governance Compliance Statement, published on the Group's website at www.thomascookgroup.com.

Nominations Committee

The terms of reference of the Nominations Committee are, in summary, to make recommendations to the Board from time to time on the Board's composition and balance, to prepare the description of the role and capabilities required for appointments to the Board and to make recommendations to the Board on all new appointments to the Board. While the relationship agreement, which formed part of the terms agreed for the merger of Thomas Cook AG and MyTravel Group plc (the "**Relationship Agreement**"), remains in force the Committee shall be comprised of no fewer than three Non Executive Directors who are considered by the Board to be independent of management and free from any business of other relationship which might materially interfere with the exercise of independent judgement, together with a maximum of two Directors appointed by Arcandor AG.
The majority of the members of the Nominations Committee shall be independent Non Executive Directors and the Chairman of the Committee shall be an independent Non Executive Director. The quorum is three members of the Committee, the majority of whom must be independent Non Executive Directors. Meetings are held not less than once a year.

CORPORATE GOVERNANCE REPORT CONTINUED

The Group Chief Executive Officer may attend meetings of the Committee except to the extent that the matter for discussion is the role or performance of the Group Chief Executive Officer. The Committee considers candidates for appointment to the Board following consultation between the Chairman of the Committee and the Group Chief Executive Officer.

Management Development and Remuneration Committee

The Management Development and Remuneration Committee is responsible for all elements of Executive remuneration, for performance management and for the Group's remuneration and incentivisation policies. The terms of reference of the Management Development and Remuneration Committee are, in summary, to make recommendations to the Board on the Group's framework of Executive remuneration and its cost and to review and determine on behalf of the Board the remuneration and incentive packages of the Executive Directors to ensure that they are fairly rewarded for their individual contributions to Thomas Cook Group's overall performance. The Committee is responsible, in accordance with the Listing Rules, for reporting to the Board and to the Company's shareholders in relation to remuneration policies applicable to Executive Directors. The Committee is responsible for determining the basis upon which the employment of any Director is terminated, for operating Thomas Cook Group's share option and other incentive schemes and in accordance with the rules of those schemes and for making recommendations to the Board as to any adjustments to the terms of such schemes and proposals intended for submission to shareholders in relation to such schemes. The Committee has no authority in relation to the remuneration of Non Executive Directors.

While the Relationship Agreement remains in force the Committee shall be comprised of no fewer than three Non Executive Directors who are considered by the Board to be independent of management and free from any business or other relationship which might materially interfere with the exercise of independent judgement, together with a maximum of two Directors appointed by Arcandor AG. The majority of members of the Committee shall be independent Non Executive Directors and the Chairman of the Committee shall be an independent Non Executive Director. The quorum shall be three members of the Committee, a majority of whom must be independent Non Executive Directors and meetings shall be held not less than once a year. The Group Chief Executive Officer may, on occasion and only for matters which do not personally concern him, be invited to attend meetings of the Committee and in any event shall be consulted by the Committee on proposals relating to the remuneration of the other Executive Directors.

Full details of Directors' remuneration are included in the Remuneration Report on pages 56 to 64.

Audit and Risk Management Committee

The duties of the Audit and Risk Management Committee include, in summary, the review of internal and external audit functions, the review of risk management and internal control processes, the making of recommendations to the Board in relation to the appointment of external auditors and the monitoring of the integrity of the half year and annual financial statements and interim management statements before submission to the Board. The Committee reports to the Board on any matter on which it considers that action is required and makes recommendations for steps to be taken. In addition, the Audit and Risk Management Committee has authority to investigate any activity within its terms of reference and is responsible for resolution of disagreements between the management and the auditor.

Meetings are held not less than four times a year. The regular business of the meetings is to consider reports of the internal and external auditors and of the risk management committee and to make recommendations to the Board as appropriate.

The Board is satisfied that the Chairman of the Committee, David Allvey, has recent and relevant financial experience and is also satisfied that all members of the Committee have appropriate knowledge and understanding of financial, risk and accounting matters to contribute effectively to the Committee.

The Committee is responsible for reviewing any litigation or regulatory proceedings to which the Thomas Cook Group is a party or which could have material and significant affect upon the financial, legal, regulatory or compliance position or operational results of Thomas Cook Group and the manner in which such matters have been disclosed in the financial statements.

The Committee is authorised by the Board to investigate any activity within its terms of reference, to require compliance with such investigation by all employees of the Group and to obtain independent legal or other professional advice. It is also authorised to approve the appointment of or termination of employment or engagement of any regulatory compliance officer and the internal auditor.

While the Relationship Agreement remains in force, the Committee shall be comprised of no fewer than three Non Executive Directors who are considered by the Board to be independent of management and free from any business or other relationship which might materially interfere with the exercise of independent judgement, together with a maximum of two Directors appointed by Arcandor AG. The majority of members of the Committee shall be independent Non Executive Directors and the Chairman of the Committee shall be an independent Non Executive Director. The quorum shall be three members of the Committee, and the majority of whom must be independent Non Executive Directors and meetings should be held not less than four times a year. The Committee recognises that its composition is not in full compliance with provision C.3.1 of the Combined Code on Corporate Governance. The Committee considers that the two representatives of Arcandor AG give valuable insight into the German trading market and considers that having a minimum of three, and currently four, independent Non Executive Directors in addition to the two who represent Arcandor AG gives appropriate balance to the Committee and preserves its independence. Relevant executive management and a representative of the external auditors are invited to attend meetings as appropriate. At least one meeting each year is held with the external auditors and without executive management present. The external auditors may request a meeting if they consider one necessary.

The Committee has developed a policy for the provision of non-audit services by the auditors and pre-approves material fees for non-audit services in accordance with that policy in order to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. The policy is set out in the Group's Corporate

Governance Compliance Statement published on the Group's website at www.thomascookgroup.com. An analysis of the fees earned by the Group's auditors for audit and non-audit services is disclosed in note 11 to the financial statements.

Health, Safety and Environmental Committee

The terms of reference of the Health, Safety and Environmental Committee are, in summary, to review and supervise the management of health, safety and environmental risks and impact in the Group's activities, and to review and oversee the development and implementation of the Thomas Cook Group Health, Safety and Environmental Policy. It is also responsible for reviewing Thomas Cook Group's compliance with relevant legislation and regulation relating to health, safety and the environment in all of its areas of operation, including customer and employee safety.

The quorum is three members of the Committee, a majority of whom must be independent Non Executive Directors, and meetings shall be held not less than three times a year. Meetings may be convened more frequently at the request of the Chairman and to deal with specific issues that have arisen.

As at 30 January 2008, the Board comprised of the Non Executive Chairman, Non Executive Deputy Chairman, two Executive and six Non Executive Directors. Biographical details of the Directors are included on pages 36 and 37. The Non Executive Deputy Chairman (who is also the Senior Independent Director) and five of the Non Executive Directors are regarded as being independent for the purposes of the Combined Code. The composition of the Board is designed to provide an appropriate balance of Group, industry and general commercial experience and is reviewed at regular intervals to ensure that it remains appropriate to the nature of the Group's activities.

PERFORMANCE EVALUATION

The Group has established a performance evaluation process for its Board, committees and individual Directors, developed by the Group Company Secretary in conjunction with the Group HR Director, which ties in with the evaluation procedures for other staff within the Thomas Cook Group of companies. Each of the Executive Directors is subject to the performance management processes established for all employees. For the Executive Directors other than the Chief Executive, this involves their performance being reviewed by the Chief Executive. These appraisals are then reviewed by the Chairman on behalf of the rest of the Board and any key conclusions or points of note passed to the Non Executive Directors. In relation to the Chief Executive, the Chairman has carried out an appraisal of his performance and discussed his conclusions with the Non Executive Directors.

During the year the Chairman conducted an evaluation of the Board's overall performance on an informal basis facilitated by the Group Company Secretary. This focused on attendance at meetings, preparation for discussions, contribution of specialist knowledge and experienced understanding of the Group's structure and activities, understanding of management responsibilities, understanding of and contribution to appropriate financial management policies, risk management and the Group's corporate governance and compliance policies and procedures.

Actions to improve the Board and Board Committee effectiveness have been discussed from time to time, agreed and implemented. Personal feedback on individual Directors was discussed with them privately by the Chairman. No individual performance problems were identified. In respect of all Directors who are to be submitted for re-election at the Company's AGM, their performance continues to be effective and they have continued to demonstrate the appropriate level of commitment to their role. The use of external providers in the context of Board evaluation is being kept under review.

BOARD INDUCTION PROCESS

In relation to any new Board appointees, the Group Company Secretary provides a pack of introductory briefing information to new Board members and, in conjunction with the Group HR Director, arranges to provide such additional information to the new Director as that Director requests and arranges to schedule any additional briefings that may be suggested by the Board.

INDEPENDENT ADVICE

There is a procedure in place whereby the Directors are able to take professional advice at the Company's expense in relation to any matter which relates to their position as Director (but not personal matters).

SHAREHOLDER COMMUNICATION

The Board promotes open communication with shareholders, which is formalised within a framework of investor relations, and includes formal presentations of full year and interim results, trading statements and regular meetings between executive management and institutional investors. In addition, the Board responds to ad hoc requests for information and all shareholders have an opportunity to question the Board at the AGM.

A review of the performance and financial position of the key operations is provided in the Business Review on pages 25 to 27 and the Financial Review on pages 28 to 35. The Board uses these reports to present a balanced and understandable assessment of the Group's position and prospects.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its ultimate accountability for maintaining an effective system of internal control that is appropriate in relation to both the scope and the nature of the Group's activities and complies with the Turnbull Committee Guidance in the Combined Code and has approved the framework and the standards implemented.

The Board, in reviewing the effectiveness of the system of internal control, can confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review.

The Board has delegated responsibility for the implementation of the Group Risk Management Policy to the Group Chief Financial Officer. The Group Chief Financial Officer has formed the Group Risk Management Committee to support him in fulfiling this responsibility.

CORPORATE GOVERNANCE REPORT CONTINUED

The Group Risk Management Committee is responsible for:

Supervising a thorough and regular evaluation of the nature and extent of the risks to which the Company is exposed.

> Reviewing the corporate risk profile and recommending Risk Management strategies.

> Supervising and assessing the overall effectiveness of the Risk Management process.

To support the Group Risk Management Committee there are segment risk management committees. The Group has established five segmental risk committees:

> UK and Ireland

> Northern Europe

> North America

> Continental and

> German Airlines

which report to the Group Risk Management Committee.

By implementing the Risk Management Policy, the segments are responsible for:

> Maintaining and updating risk reporting.

> Managing risk action implementation and measurement systems.

> Maintaining and reviewing risk performance and measurement systems.

Risk registers are compiled and submitted by each segment for review quarterly.

The Group Risk Management Committee prepares a half yearly risk report for the attention of the Audit and Risk Management Committee, based on the feedback from the segment risk management committees for review at Group level. The report identifies the principal risks to the business and assesses the adequacy of controls and procedures in place to mitigate the likelihood and the impacts of these risks.

The regular risk reporting regime has created an environment for the development and improvement of risk management procedures across the Group. The Audit and Risk Management Committee reviews the reports of the Group Risk Management Committee and makes recommendations to improve risk management and internal control.

This process of risk identification, measurement and reporting provides a comprehensive ongoing assessment of the significant risks facing the Group and the mitigation actions taken in respect of those risks. This process ensures that the Group complies with the relevant corporate governance best practice in relation to risk management including the guidance issued under the Turnbull Report.

The Group has established an Internal Audit function which reports directly to the Chairman of the Audit and Risk Management Committee. Internal Audit makes recommendations to that Committee in relation to the maintenance of a sound control environment throughout the Group.

The Group encourages employees to report any concerns which they feel need to be brought to the attention of management and has adopted a whistleblowing policy and a Group theft and fraud reporting policy which are published on the Group's intranet sites, allowing such matters to be raised in confidence through the appropriate channels.

The Group has a code of ethics which deals with:

> prohibitions on employees using their position for personal gain;

> prohibitions on improper business practices;

> a requirement for compliance with all internal approval and authorisation procedures and legal requirements;

> a requirement to disclose potential conflicts of interest and potential related party contracts.

During the year, the Board, through the work of the Audit and Risk Management Committee, has conducted a review of the Group's system of internal control. There is an ongoing process for the identification and evaluation of risk management and internal control processes which has been in place throughout the year and remains in place up to the date of the Financial Statements.

This code of ethics is contained within the Group's internal policies guide which is available to all employees and, in particular, those with responsibility for procurement or other dealings with third party suppliers. In addition, the Group Company Secretary is available for advice on any matter which may give rise to cause for concern in relation to the code of ethics.

COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

The Directors have carried out a review of the Group's corporate governance policies and procedures in the light of the requirements of section 1 of the Combined Code. This review has indicated that the Company has been in compliance with the provisions of the Combined Code throughout the period since listing, with the exception of the matters referred to below:

Dr Thomas Middelhoff does not fulfil the independence criteria set out in code provision A3.1 of the Combined Code, as required by provision A2.2 of the Combined Code, as he has been from the date of his appointment, and continues to be, the chairman of the Management Board of Arcandor AG, the Company's largest shareholder. Dr Peter Diesch is a Non Executive Director of the Company and is the Chief Financial Officer of Arcandor AG. The appointments of Dr Middelhoff and Dr Diesch were an agreed part of the merger of MyTravel Group plc and Thomas Cook AG and were agreed in consultation with the major shareholders of those companies, which became the major shareholders of Thomas Cook Group plc.

In accordance with provision A.4.6 of the Combined Code the Company notes that neither an external consultancy nor open advertising was used in the appointment of the additional independent Non Executive Directors, Bo Lerenius and Hemjö Klein. Each of these appointments was made following the normal process for the evaluation of potential candidates for appointment to the Board, including meetings between those new Directors and both Executive and Non Executive Directors of the Company, and was approved by the nominations committee, the majority of whom are independent Non Executive Directors.

Provisions B2.1 and C3.1 of the Combined Code provide that the Remuneration Committee and the Audit Committee respectively should be made up entirely of independent Non Executive Directors. Under the terms of the Relationship Agreement, Arcandor AG is entitled to appoint up to two Non Executive Directors to each of the Audit and Risk Management Committee, Management Development and Remuneration Committee and Nominations Committee. The corporate governance arrangements referred to above are considered by the Board to be appropriate given the shareholding structure of Thomas Cook Group and the terms of the Relationship Agreement. The arrangements were agreed in consultation with the major shareholders of MyTravel Group plc and Thomas Cook AG, which became the major shareholders of Thomas Cook Group plc.

The Board has adopted a corporate governance compliance statement that sets out how the policies, procedures and practices of the Group comply with, or in the case of the areas referred to in the preceding paragraphs, deviate from the Combined Code. A copy of this statement is available, on request, from the Group Company Secretary or on the Group's website at www.thomascookgroup.com.

REMUNERATION REPORT

This report has been prepared to comply with requirements of the Companies Act 1985 as amended by The Directors' Remuneration Report Regulations 2002 (the "Regulations"). As the Regulations provide that certain of the information is to be the subject of the auditors' report and other information is not, this report is divided into sections of audited and unaudited information.

The report covers the remuneration of the Executive and Non Executive Directors for services to the Company from 19 June 2007 to 31 October 2007. There was no remuneration for services to the Company for the period from inception of the Company on 8 February 2007 to 19 June 2007.

The remuneration policy described is the remuneration policy for the Group (which is comprised of the Company and its subsidiaries) and for the Executive Directors of the Company.

This report will be the subject of a separate resolution for approval at the Annual General Meeting of the Company before which the annual accounts are to be laid.

A. INFORMATION NOT SUBJECT TO AUDIT

Management Development and Remuneration Committee

The Management Development and Remuneration Committee (the "Committee") was established following the merger. The members of the Committee since 19 June 2007 have been:

Michael Beckett (Chairman)
Roger Burnell
Dr Peter Diesch
Dr Thomas Middelhoff
Dr Angus Porter

Hemjö Klein joined the Committee on his appointment to the Board on 1 July 2007.

The Committee is responsible for making recommendations to the Board on the Company's framework of Executive remuneration and its cost, for reviewing and determining, on behalf of the Board, the remuneration and incentive packages of the Executive Directors and Chairman and for recommending and monitoring the level and structure of the remuneration for the senior management of the Company and its subsidiaries. The terms of reference of the Committee can be found on the Company's website.

The Committee has held five meetings during the period since listing. Attendance at those meetings is disclosed in the Corporate Governance report. The most significant matters discussed by the Committee at the formal meetings included:

> the remuneration policy for the Group;

> the market competitiveness of the remuneration packages for Executive Directors;

> the service contracts for the Executive Directors;

> the severance arrangements for John Bloodworth;

> the introduction of a new Co-Investment Plan ("COIP"); and

> the structure of annual bonus arrangements.

Committee's advisors

The Committee invites such other representatives of the Group to attend meetings as it deems beneficial to assist it in considering matters raised. During the year, these have included the Group HR Director, the Group Head of Reward and the Group Company Secretary. No Executive is present when his or her own remuneration arrangements are being discussed.

In performance of its duties, the Committee seeks assistance from external advisors where necessary. PricewaterhouseCoopers LLP has provided services relating to the design of incentive arrangements and benchmarking of salaries and benefits for Executive Directors to the Group. PricewaterhouseCoopers LLP currently act as joint auditors (with Deloitte & Touche LLP) to the Group.

Legal advice is provided to the Committee by the in-house legal function and by Slaughter and May. In particular, advice has been sought regarding Directors' contracts and incentive arrangements.

The Committee will always ensure it is suitably advised and will review the appointment of such advisors on a regular basis. Currently the Committee has appointed both PricewaterhouseCoopers LLP and Slaughter and May.

Remuneration policy

The Group's remuneration policy is to ensure that Directors and senior executives are rewarded in a way which attracts and retains management of the highest quality and motivates them to achieve the highest level of performance consistent with the best interests of the Group, its shareholders and employees. In developing its remuneration policy, the Committee has had regard to the fact that the Group has significant international operations and, in order to compete in the global environment for the recruitment, retention and incentivisation of high quality Executive Directors and senior managers, it must offer upper quartile rewards for upper quartile performance.

The Committee has therefore set its remuneration policy in view of, and applying, the following principles:

> The Group's objective is to deliver financial results which consistently outperform the average of the industry sector.

> The Group will look to retain and attract Directors and senior executives with above-average skills and leadership potential.

> The remuneration of each Executive Director will be based on performance (both of the Group and the individual Executive), potential (i.e. the Executive's potential to grow in responsibility and performance) and scarcity (i.e. the availability of candidates to replace the Executive should he leave the Group).

> The proportion between fixed and variable remuneration will typically be targeted at 30 per cent fixed and 70 per cent variable.

The Committee has determined that its policy for the design of remuneration arrangements for Executive Directors is that the fixed elements of remuneration shall be set in line with the median of a specified comparator group of companies and that total earnings (which are made up of base salary, pension supplements, bonuses and any other performance-related elements of reward, such as long-term incentive arrangements) shall be targeted at the upper quartile of the comparator group subject to the attainment of appropriate and challenging performance criteria.

The remuneration for Executive Directors will be highly geared towards performance with the proportion of "at risk" pay increasing disproportionately according to:

> the level of personal performance; and

> the seniority of the Executive Director and his/her ability to influence results.

A bespoke comparator group has been adopted to benchmark the remuneration of Executive Directors of the Group. This group consists of companies in the FTSE index with significant international operations. This particular comparator group has been chosen to reflect the international nature of the Group's business. Where specialist functions are concerned, the Committee may have reference to other comparator groups as it feels are appropriate.

Following the establishment of the above policy, the Committee has reviewed the structure of remuneration for Executive Directors in the Group and the following changes are to be made (subject to shareholder approval where required):

> the maximum bonus potential (as a percentage of salary) will be increased for the financial year 2007/2008 from 100 per cent to 175 per cent (for the Chief Executive Officer) and 150 per cent (for the other Executive Directors) of salary;

> clearer definition of non-financial performance targets for the annual bonus (the point at which full bonus is payable has also been increased relative to budget outturn, thus giving rise to more stretching targets for full payment); and

> implementation of a COIP to encourage investment by participants in the Company's shares and to reward outperformance.

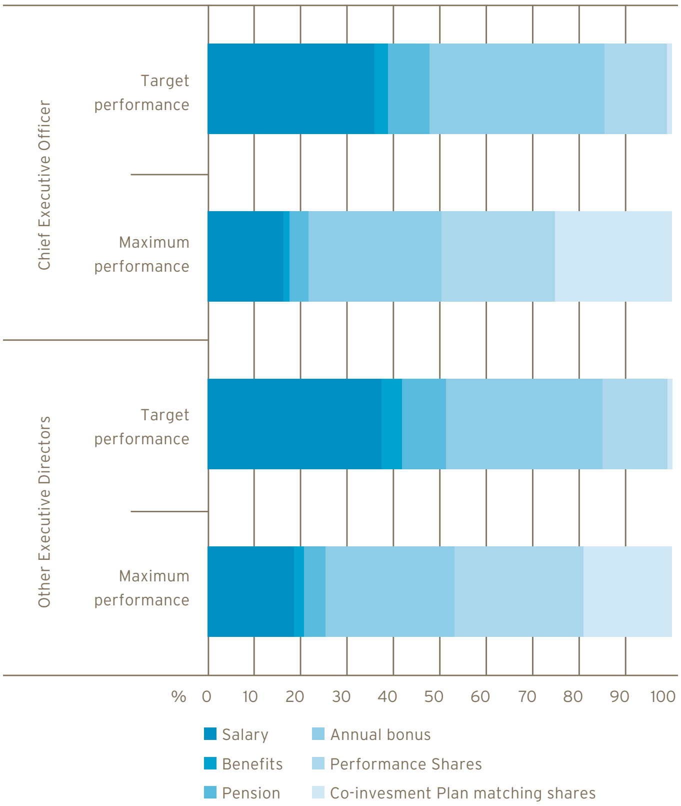
The relative importance of the fixed and variable elements of the remuneration packages of Executive Directors in circumstances of target and strong performance, is shown in the chart opposite.

The chart opposite assumes:
(a) Base salaries in force at 31 October 2007;
(b) Value of benefits provided in year to 31 October 2007;
(c) Pension: 25 per cent of base salary;
(d) Annual bonus:
 > 60 per cent of full bonus paid at target performance;
 > 100 per cent of full bonus paid at maximum performance;
(e) Performance Share Plan: 37.5 per cent of salary at target performance; 150 per cent of salary at maximum performance;
(f) Co-Investment Plan: 10 per cent of post tax annual bonus at target performance and the excess above 100 per cent of salary at maximum performance invested with match of:
 a. 0.5:1 at target performance;
 b. 3.5:1 at maximum performance.

Remuneration arrangements for the period

Amounts paid to the Executive Directors in respect of the period under review are set out in the audited section of this report.

RELATIVE IMPORTANCE OF FIXED AND VARIABLE REMUNERATION



Remuneration arrangements for 2008 onwards

Base salary and benefits

The base salaries for the Executive Directors were reviewed by the Committee on appointment to the Board of the Company following a benchmarking exercise carried out by PricewaterhouseCoopers. Base salaries of Executive Directors will be reviewed annually in January (the first review for Manny Fontenla-Novoa and Ludger Heuberg to take place in January 2009) taking into account individual performance and market data.

The annual rates of base salary for the Executive Directors are shown in the table below.

Name	£000	€000[1]
Manny Fontenla-Novoa	630	904
Ludger Heuberg	425	610

[1]The equivalent figures in Euro are based on conversion of the Sterling salary figures at a year end exchange rate of 1.434583 Euro to the Pound.

Benefits include the provision of pensions, private health insurance, personal accident cover, death in service benefits and a fully expensed motor vehicle. Executive Directors who are required to move from their home territory to take up residence in the UK have their remuneration tax-equalised and are provided with a contribution towards their accommodation costs and travel between the UK and the home territory. These benefits do not form part of the basis for the calculation of Executive Director pensions.

REMUNERATION REPORT CONTINUED

Annual Bonus

The maximum annual bonus opportunity for the Chief Executive Officer is 175 per cent and for each of the other Executive Directors is 150 per cent of base salary. Of the maximum bonus payable:

(i) 75 per cent is linked to the attainment of financial targets and is earned on a pro rata basis by reference to the achievement of those targets; and

(ii) 25 per cent is linked to the attainment of individual and other non-financial criteria linked to the development of the Group and the implementation of the Board's strategy and which are set by the Committee and agreed with each Executive Director at the start of the financial year. The individual and other non-financial criteria comprise targets in relation to customer satisfaction, health & safety and employee engagement. Entitlement to the non-financial based element of the bonus will only vest and become payable rateably to the extent that the financially based elements of that Executive Director's bonus vests.

The Committee will determine the extent to which it considers the targets and objectives have been met and the annual bonus payable. Bonuses will normally be paid in the January following the end of the relevant financial year in which they are earned.

Pensions

The Company contributes each year into a pension scheme or similar arrangement for each of the Executive Directors an amount equivalent to 25 per cent of their annual salary. Mr Fontenla-Novoa receives a pension allowance of 25 per cent of basic salary from the Company. He remains an active member of a UK defined benefit pension scheme, which provides pension benefits on a proportion of salary. Salary above that which is pensionable in the UK defined benefit scheme is pensioned by paying the balance of the allowance into a UK based tax approved defined contribution pension.

Long-term incentive plans

Thomas Cook Group plc 2007 Performance Share Plan

The Performance Share Plan ("PSP") was approved by the Board prior to the Company's listing and provides for the award of shares to Executive Directors and other senior employees who are selected to participate. The first awards under the PSP were made in July 2007.

Awards are made annually over shares having a face value at the date of grant of up to 200 per cent of the individual's base salary. Awards will vest after three years providing the participant is still employed by a company in the Group and to the extent that the performance conditions have been met. Good leaver provisions apply in the event of cessation of employment due to death, injury, disability, ill-health, redundancy or retirement. In the event of a change of control, a proportion of the awards (reflecting the proportion of the performance period that has elapsed) will vest immediately subject to the achievement of performance conditions as at that time.

The performance conditions and vesting schedule attaching to the outstanding PSP awards are set out in the table below.

PSP Awards	50% of award	50% of award
Performance condition	**Total shareholder return ranking against comparator group**	**Earnings per share ("EPS") for Financial Year to 31 October 2009**
Reference for comparison	50 companies at bottom of FTSE 100 and 50 companies at top of FTSE 250	
25% vesting	Median of comparator group	€ cents 34
100% vesting	Upper quartile or above	€ cents 41
25%-100% vesting	Between median and upper quartile	Between € cents 34 and € cents 41 on a straight line basis

The TSR comparator group was chosen as it is a broad group of companies of similar size and against which the endeavours of the Company's management should be judged. This comparator group excludes investment companies. The comparator group is determined at the date on which PSP awards are made.

Future performance conditions and vesting levels will be attached to awards that are believed to be stretching and provide value to the Executive Directors commensurate with performance achieved and align their interests with those of shareholders.

Co-Investment Plan ("COIP")

It is proposed that shareholder approval will be sought for the introduction of a COIP at the Company's AGM in April 2008. Executive Directors and other senior employees will be eligible to participate in the COIP. It is currently proposed that a proportion of post tax annual bonus must be deferred under the COIP with the opportunity to voluntarily defer a further amount such deferred amounts to be applied in the purchase of Company shares. The requirement for compulsory investment under the COIP will cease once a participant's shareholding reaches a value equal to 200 per cent of salary (this level of shareholding must be maintained).

A matching award of up to 2.5 shares for every 1 share purchased will be made subject to the achievement of EPS linked performance targets, agreed by the Committee, measured over a three year period. A ratchet mechanism based on Return on Invested Capital achievement (ROIC) may increase the matching award by up to 40 per cent for superior performance but will reduce the matching award by up to 100 per cent for below target range ROIC performance. Further details of the COIP will be contained in the Company's AGM notice.

Service contracts

Each of the Executive Directors has a service contract with the Company. The dates of the service contracts and their notice periods for each Executive Director who held office during the period from 19 June to 31 October 2007 are set out below:

Name	Date of contract	Outstanding term	Notice period	Compensation arrangements
Manny Fontenla-Novoa	30 January 2008	to age 65	12 months	See below
Peter McHugh	3 December 2002[1]	Two months	3 months	One year's annual salary plus annual bonus, synergy bonus, retention bonus of £1 million and other benefits (based on a salary of £600,000)
John Bloodworth	19 June 2007[2]	Two months	12 months	One year's salary plus bonus and other benefits
Ludger Heuberg	30 January 2008	to age 65	12 months	See below

[1]Amended by variation latters dated 8 March 2007 and 27 April 2007.

[2]Amended by compromise agreement dated 19 September 2007.

The Executive Directors' service contracts (other than those for Peter McHugh and John Bloodworth) do not have a fixed termination date. The minimum unexpired term of each contract on a given date will be its notice period as set out above. In the event of early termination, compensation would be negotiated on an individual basis taking account of salary and the relevant notice period, together with other benefits provided by the Company as set out in this report.

Notice periods are negotiated on an individual basis but are usually 12 months from either party in the case of Executive Directors. The Board believes that these notice periods are appropriate given the need to retain the specialist skills that the Directors bring to the business and to achieve continuity in the Company's senior management.

External appointments

The Company recognises the benefits to the individual and to the Group of Executive Directors taking on external appointments as Non Executive Directors of companies not associated with the Group. Subject to the approval of the Committee and to such conditions as the Committee may, in its discretion, attach, an Executive Director may accept such appointments at other companies or similar advisory or consultative roles, providing they do not present a conflict of interest. The Committee has set a limit of one significant paid appointment per Director. The Executive Director may retain any fees paid for such an appointment.

The external appointments held by the Executive Directors and fees received during the period under review are shown in the table below.

Director	Company	Fees received
Ludger Heuberg	Commerzbank AG Regional Advisory Committee	€3,000

Non Executive Directors

The fees for Non Executive Directors are determined by the Board excluding the Non Executive Directors. The remuneration of the Chairman and Deputy Chairman is reviewed and determined by a committee comprising the other members of the Committee.

Non Executive Directors' fees are reviewed annually. Non Executive Directors do not participate in any bonus plans, are not eligible to participate in any long-term incentive plans and no pension contributions are made on their behalf.

The annual rates of Non Executive Director fees are shown in the table below.

	Annual fees
Chairman	£250,000
Deputy Chairman	£250,000
Non Executive Director	£60,000
Chair of Audit & Risk Management Committee	£80,000

The fees paid to the Chairman and the Non Executive Directors in respect of the period under review are set out in the audited section of this report.

REMUNERATION REPORT CONTINUED

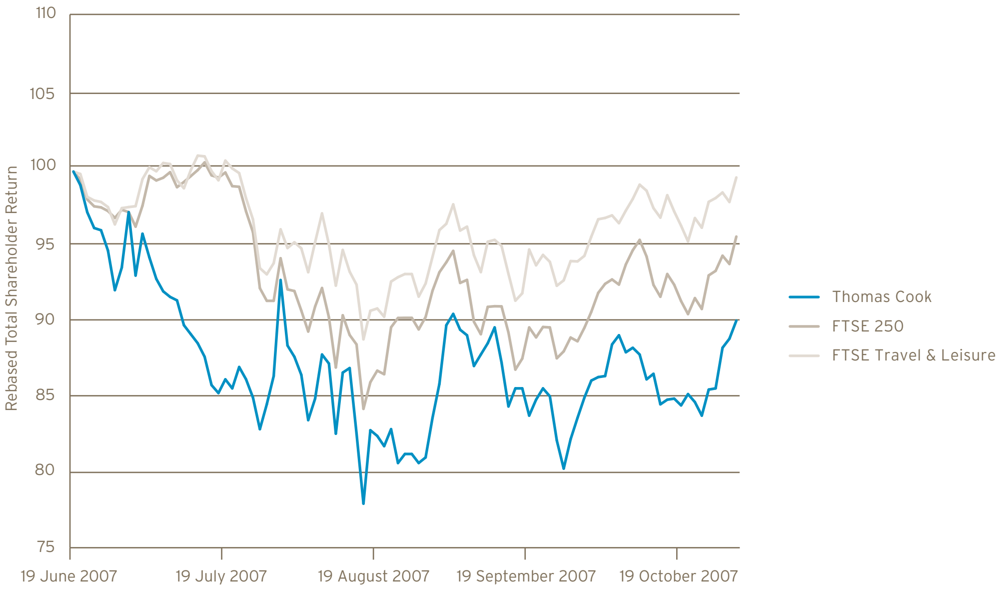
Each of the Non Executive Directors of the Group has been appointed pursuant to a letter of appointment. The appointments under these letters continue until the expiry date set out below unless terminated for cause or on the period of notice stated below.

Non Executive Director	Date of letter of appointment	Expiry date	Notice period
Dr Thomas Middelhoff	18 June 2007	See note	See note
Michael Beckett	13 June 2007	See note	90 days
David Allvey	21 June 2007	18 June 2010	6 months
Roger Burnell	18 June 2007	18 June 2010	6 months
Dr Peter Diesch	18 June 2007	See note	See note
Hemjö Klein	1 July 2007	30 June 2010	6 months
Bo Lerenius	1 July 2007	30 June 2010	6 months
Dr Angus Porter	18 June 2007	18 June 2010	6 months

Note: Dr Thomas Middelhoff's and Dr Peter Diesch's appointments shall continue until terminated by Arcandor AG by notice to the Company. Michael Beckett's appointment continues until terminated by either party on 90 days notice.

Performance graph

The graph below shows the total shareholder return for holders of Thomas Cook Group plc €0.10 ordinary shares for the period since listing on 19 June 2007, measured against the FTSE 250 Index and the FTSE Leisure & Hotel Index. These indices were chosen as comparators because the Company has been a constituent of the FTSE 250 and FTSE Leisure & Hotel Index throughout the period since listing. The calculation of total shareholder return follows the provisions of the Regulations and is broadly the change in market price together with reinvestment of dividend income.



B. INFORMATION SUBJECT TO AUDIT

Details of the remuneration of the Executive and Non Executive Directors for services to the Company are disclosed below. The period of the remuneration is from 19 June 2007 to 31 October 2007. There was no remuneration for services to the Company for the period from inception of the Company on 8 February to 19 June 2007.

GBP

	Annual base salary October-07 £000	Salary and fees £000	Bonus payments £000	Compensation for loss of office £000	Other payments £000	Benefits £000	**Total 2007 £000**	Total 2006 £000	**Pension contributions 2007 £000**	Pension contributions 2006 £000
Executive										
Manny Fontenla-Novoa	630	231	2,652	–	–	5	**2,888**	–	**80**	–
Peter McHugh	630	231	2,130	–	–	175	**2,536**	–	**98**	–
Ludger Heuberg	425	156	1,002	–	–	15	**1,173**	–	**36**	–
John Bloodworth	450	165	1,620	–	–	139	**1,924**	–	**70**	–
		783	7,404	–	–	334	**8,521**	–	**284**	–
Non Executive										
Thomas Middelhoff	250	92	–	–	–	–	**92**	–	**–**	–
Michael Beckett	250	92	–	–	–	–	**92**	–	**–**	–
David Allvey	80	29	–	–	–	–	**29**	–	**–**	–
Roger Burnell	60	22	–	–	–	–	**22**	–	**–**	–
Peter Diesch	60	22	–	–	–	–	**22**	–	**–**	–
Bo Lerenius	60	20	–	–	–	–	**20**	–	**–**	–
Angus Porter	60	22	–	–	–	–	**22**	–	**–**	–
Hemjö Klein	60	20	–	–	–	–	**20**	–	**–**	–
		319	–	–	–	–	**319**	–	**–**	–
Total emoluments		1,102	7,404	–	–	334	**8,840**	–	**284**	–

EURO

	Annual base salary October-07 £000	Salary and fees £000	Bonus payments £000	Compensation for loss of office £000	Other payments £000	Benefits £000	**Total 2007 £000**	Total 2006 £000	**Pension contributions 2007 £000**	Pension contributions 2006 £000
Executive										
Manny Fontenla-Novoa	904	336	3,805	–	–	7	**4,148**	–	**117**	–
Peter McHugh	904	338	3,056	–	–	251	**3,645**	–	**143**	–
Ludger Heuberg	610	227	1,438	–	–	21	**1,686**	–	**52**	–
John Bloodworth	645	242	2,324	–	–	200	**2,766**	–	**102**	–
		1,143	10,623	–	–	479	**12,245**	–	**414**	–
Non Executive										
Thomas Middelhoff	359	134	–	–	–	–	**134**	–	**–**	–
Michael Beckett	359	134	–	–	–	–	**134**	–	**–**	–
David Allvey	115	43	–	–	–	–	**43**	–	**–**	–
Roger Burnell	86	32	–	–	–	–	**32**	–	**–**	–
Peter Diesch	86	32	–	–	–	–	**32**	–	**–**	–
Bo Lerenius	86	29	–	–	–	–	**29**	–	**–**	–
Angus Porter	86	32	–	–	–	–	**32**	–	**–**	–
Hemjö Klein	86	29	–	–	–	–	**29**	–	**–**	–
		465	–	–	–	–	**465**	–	**–**	–
Total emoluments		1,608	10,623	–	–	479	**12,710**	–	**414**	–

REMUNERATION REPORT CONTINUED

Notes

The annual rates of salary in force from 19 June 2007 were as follows:

Manny Fontenla-Novoa	£630,000
Peter McHugh	£630,000
Ludger Heuberg	£425,000
John Bloodworth	£450,000.

Annual bonus entitlement: Up to 100 per cent of salary with 75 per cent paid by reference to financial targets and 25 per cent payable by reference to personal objectives. All targets and objectives for all Directors were satisfied or deemed satisfied in full under the terms of the bonus schemes concerned in respect of the year.

Pension contributions were payable at a rate of 25 per cent of salary to a pension scheme or equivalent of the Director's choice.

Taxable benefits related to the matters set out below:

> The Company agreed with Peter McHugh, who is not a UK national, to (1) arrange for the tax equalisation of his remuneration such that he would not be adversely affected by UK taxes (2) pay part of the cost of his UK accommodation and (3) pay for travel between the UK and the USA for Peter McHugh and his wife (4) pay USD 28,000 per annum in relation to US travel expenses.

> John Bloodworth was entitled to a fully expensed motor car.

> The Company agreed with John Bloodworth who is not a UK national to (1) arrange for the tax equalisation of his remuneration such that he would not be adversely affected by UK taxes and (2) to pay for travel between the UK and the USA each year to be used by John Bloodworth and/or his family.

> Each of the Executive Directors is eligible for private health insurance, prolonged disability insurance and death in service benefits (subject, in each case, to their being accepted for cover and satisfying any applicable arrangements and/or terms and conditions of the insurers from time to time in force).

The following table sets out the amount of and the extent to which each of the Directors who were entitled to a product review allowance utilised their allowance in the period.

	Amount of Product Review	Amount Used
Peter McHugh	£25,000	£13,494
John Bloodworth	£25,000	Nil
David Allvey	£7,000	£7,000

Following the merger of MyTravel Group plc and Thomas Cook AG this allowance was discontinued.

In addition to the above payments to the Directors of Thomas Cook Group plc, payments of €10.1 million were made to key management as compensation in respect of the transactions that led to the formation of Thomas Cook Group plc. These amounts were reimbursed by Arcandor AG and are included in the Related Parties note 38.

Directors' interests in shares

The interests, beneficial unless otherwise indicated, of the Directors in the €0.10p ordinary shares of the Company at 19 June 2007 (or the date of their appointment to the Board if later) and 31 October 2007 (or the date of resignation from the Board if earlier) were as follows:

	Ordinary shares 31 October 2007	Ordinary shares 19 June 2007	Management Incentive Plan 31 October 2007	Management Incentive Plan 19 June 2007	Performance Share Plan 31 October 2007	Performance Share Plan 19 June 2007
David Allvey	–	–	–	–	–	–
Michael Beckett	24,999	24,999	–	–	–	–
John Bloodworth	100,658	62,652	–	560,991	168,919	–
Roger Burnell	3,692	3,692	–	–	–	–
Peter Diesch	–	–	–	–	–	–
Manny Fontenla-Novoa	70,643	–	–	–	283,784	–
Ludger Heuberg	–	–	–	–	127,628	–
Hemjö Klein (at 1 July)	–	–	–	–	–	–
Bo Lerenius (at 1 July 2007)	10,000	–	–	–	–	–
Peter McHugh	224,013	224,013	846,215	1,746,215	–	–
Thomas Middelhoff	70,000	–	–	–	–	–
Angus Porter	10,428	10,428	–	–	–	–

Peter McHugh and John Bloodworth fall within the class of discretionary beneficiaries of the MyTravel Group Employee Benefit Trust (the "No.3 EBT") and are therefore deemed, pursuant to the Companies Act 1985, to be interested in all of the 26,742 ordinary shares in the Company held by the No.3 EBT. Each of the Executive Directors falls within the call of discretionary beneficiaries of the Thomas Cook Group plc 2007 Employee Benefit Trust and is therefore deemed, pursuant to the Companies Act 1985, to be interested in all of the 1,670,103 ordinary shares in the Company held by that trust. Such interests are in addition to the interests disclosed above in relation to them. None of the Directors of the Company held any interest in any other securities of Thomas Cook Group plc during the period. In the period between 31 October 2007 and 30 January 2008 there were no changes in the Directors' interests referred to above.

Share options and long-term incentive schemes

The following table shows in respect of each person who served as a Director at any time in the financial period from 19 June 2007 to 31 October 2007 the number of ordinary shares of €0.10 each that were the subject of a share option at the start of the period (or the date of appointment if later) and at the end of the year (or the cessation of appointment if earlier). The Non Executive Directors did not hold any options during the period. Holdings relate to the MyTravel Group plc Management Incentive Plan 2004 ("MIP") and to the Thomas Cook Group plc 2007 Performance Share Plan ("PSP").

		Scheme name	At 31 October 2007	Lapsed in year	Exercised in year	Granted in year	At 8 February 2007	Exercise price	Date from which exercisable	Expiry date
John Bloodworth	MIP	Series 1	–	–	224,396	–	224,396	144p	*	31.01.15
		Series 2	–	–	336,595	–	336,595	144p	**	31.01.15
	PSP		168,919	–	–	168,919	–	nil	12.07.10	12.07.17
Manny Fontenla-Novoa	PSP		283,784	–	–	283,784	–	nil	12.07.10	12.07.17
Ludger Heuberg	PSP		127,628	–	–	127,628	–	nil	12.07.10	12.07.17
Peter McHugh	MIP	Series 1	698,486	–		–	698,486	144p	*	31.01.15
		Series 2	147,729	–	900,000	–	1,047,729	144p	**	31.01.15

* All of the unvested series 1 awards under the Management Incentive Plan vested and became exercisable on completion of the merger.

** 33.3 per cent of the series 2 awards under the Management Incentive Plan became exercisable when the market capital of the Company reached £650 million for 30 consecutive days. The second 33.3 per cent became exercisable when the market capital of the Company reached £725 million for 30 consecutive days and the final 33.4 per cent became exercisable when the market capital of the Company reached £800 million for 30 consecutive days.

The mid-market price of the Company's ordinary shares at the close of business on 31 October 2007 was 300p and the range during the period ended 31 October 2007 was 259.5p to 333p. These mid-market prices are as quoted on the London Stock Exchange.

REMUNERATION REPORT CONTINUED

Set out below is a summary of the gains on exercise made by Directors who exercised any share options during the period 19 June to 31 October 2007.

		Exercised period ended 31 October 2007	Exercise price	Market price at date of exercise	Gain year ended 31 October 2007
J M Bloodworth	Management Incentive Plan – Series 1	140,247	144p	309.78p	£232,503.58
J M Bloodworth	Management Incentive Plan – Series 1	84,149	144p	311.00p	£140,531.35
J M Bloodworth	Management Incentive Plan – Series 2	336,595	144p	311.00p	£562,123.75
P T McHugh	Management Incentive Plan – Series 2	749,124	144p	310.71p	£1,248,899.83
P T McHugh	Management Incentive Plan – Series 2	150,876	144p	306.13p	£244,610.88

On behalf of the Board

Michael Beckett

Chairman of the Management Development and Remuneration Committee

30 January 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THOMAS COOK GROUP PLC

We have audited the Group financial statements of Thomas Cook Group plc for the year ended 31 October 2007, which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes 1 to 38. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Thomas Cook Group plc for the year ended 31 October 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Group Directors' Report is consistent with the Group financial statements. The information given in the Group Directors' Report comprises the information supplied in the Chairman's Statement, the Chief Executive's Strategy Statement, the Business Review, the Financial Review and the Corporate Social Responsibility Report as cross-referenced from the 'Liability' section of the Group Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

> the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 October 2007 and of its profit and cash flows for the year then ended;

> the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;

> the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and

> the information given in the Group Directors' Report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 January 2008

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
30 January 2008

GROUP INCOME STATEMENT

For the year ended 31 October 2007

		Year ended 31 October 2007			Year ended 31 October 2006		
	Notes	**Pre-exceptional operating items and amortisation of business combination intangibles €m**	**Exceptional operating items and amortisation of business combination intangibles (notes 6, 15) €m**	**Total €m**	Pre-exceptional operating items and amortisation of business combination intangibles €m	Exceptional operating items and amortisation of business combination intangibles (notes 6, 15) €m	Total €m
Revenue	3	**9,439.3**	**-**	**9,439.3**	7,769.4	10.8	7,780.2
Cost of providing tourism services		**(7,191.4)**	**(16.2)**	**(7,207.6)**	(5,966.7)	-	(5,966.7)
Gross profit		**2,247.9**	**(16.2)**	**2,231.7**	1,802.7	10.8	1,813.5
Other operating income		**55.7**	**0.9**	**56.6**	48.5	-	48.5
Personnel expenses	4	**(988.0)**	**(97.0)**	**(1,085.0)**	(833.5)	(6.9)	(840.4)
Depreciation and amortisation	15/16	**(152.5)**	**(1.7)**	**(154.2)**	(156.7)	-	(156.7)
Amortisation of business combination intangibles	15	**-**	**(43.1)**	**(43.1)**	-	-	-
Other operating expenses	5	**(707.7)**	**(88.7)**	**(796.4)**	(680.1)	(20.0)	(700.1)
Profit on disposal of businesses and property, plant and equipment		**-**	**3.0**	**3.0**	-	53.4	53.4
Profit on disposal of non-current assets held for sale		**-**	**14.9**	**14.9**	-	-	-
Profit from operations		**455.4**	**(227.9)**	**227.5**	180.9	37.3	218.2
Share of results of associates and joint ventures	7			**2.6**			4.9
Profit on disposal of associates	6			**52.4**			20.4
Net investment income	8			**2.5**			0.9
Finance income	9			**109.3**			76.4
Finance costs	10			**(110.0)**			(101.8)
Profit before tax	11			**284.3**			219.0
Tax	12			**(58.8)**			(39.2)
Profit for the year				**225.5**			179.8
Attributable to:							
Equity holders of the parent				**224.1**			176.7
Minority interests				**1.4**			3.1
				225.5			179.8
Earnings per share							
Basic	14			**€0.33**			€0.35
Diluted	14			**€0.33**			€0.35

All revenue and results arose from continuing operations.

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 October 2007

	Notes	2007 €m	2006 €m
Losses on cash flow hedges	31	**(91.3)**	(60.4)
Gains/(losses) on available-for-sale investments	31	**0.6**	(0.6)
Exchange differences on translation of foreign operations	31	**(38.6)**	2.4
Actuarial gains/(losses) on defined benefit pension schemes	37	**147.3**	(17.8)
Tax on items taken directly to equity	12	**(32.8)**	26.9
Net expense recognised directly in equity		**(14.8)**	(49.5)
Transfers			
Transferred to profit or loss on cash flow hedges	31	**93.6**	(58.4)
Transfer of translation losses to profit or loss on disposal	31	**(0.6)**	5.6
Transfer of losses on available-for-sale investments to profit or loss on disposal	31	**(0.7)**	–
Tax on items transferred from equity	12	**(28.5)**	19.8
		63.8	(33.0)
Profit for the year		**225.5**	179.8
Total recognised income and expense for the year	29	**274.5**	97.3
Attributable to:			
Equity holders of the parent		**273.1**	94.2
Minority interests		**1.4**	3.1
		274.5	97.3

Note: The impact of the change in policy for pension accounting was a reduction in the opening reserves in 2006 of €204.6 million.

GROUP BALANCE SHEET

As at 31 October 2007

	Notes	**2007 €m**	2006 €m
Non-current assets			
Intangible assets	15	**4,126.8**	1,214.3
Property, plant and equipment – aircraft and aircraft spares	16	**813.5**	635.0
– other	16	**384.7**	240.4
Investments in associates and joint ventures	17	**51.2**	40.9
Other investments	17	**38.2**	22.1
Deferred tax assets	26	**418.5**	260.0
Tax assets		**5.3**	–
Trade and other receivables	20	**141.8**	84.3
Pension assets	37	**0.4**	–
Derivative financial instruments	25	**29.9**	11.9
		6,010.3	2,508.9
Current assets			
Inventories	19	**27.4**	10.5
Tax assets		**29.2**	8.9
Trade and other receivables	20	**1,240.1**	600.6
Derivative financial instruments	25	**113.7**	30.2
Cash and cash equivalents	21	**892.8**	736.0
		2,303.2	1,386.2
Non-current assets held for sale	28	**18.2**	47.2
Total assets		**8,331.7**	3,942.3
Current liabilities			
Retirement benefit obligations	37	**(4.7)**	(4.4)
Trade and other payables	22	**(2,046.1)**	(1,208.7)
Borrowings	23	**(74.7)**	(17.5)
Obligations under finance leases	24	**(116.2)**	(35.3)
Tax liabilities		**(109.3)**	(72.9)
Revenue received in advance		**(953.5)**	(525.8)
Short-term provisions	27	**(265.2)**	(160.7)
Derivative financial instruments	25	**(168.2)**	(52.5)
		(3,737.9)	(2,077.8)
Liabilities related to assets held for sale	28	**(9.7)**	(14.1)

	Notes	2007 €m	2006 €m
Non-current liabilities			
Retirement benefit obligations	37	**(247.1)**	(411.1)
Trade and other payables	22	**(177.9)**	(86.7)
Long-term borrowings	23	**(187.0)**	(167.8)
Obligations under finance leases	24	**(515.3)**	(513.1)
Tax liabilities		**(3.0)**	–
Revenue received in advance		**(0.7)**	(0.4)
Deferred tax liabilities	26	**(120.2)**	(0.1)
Long-term provisions	27	**(257.9)**	(60.4)
Derivative financial instruments	25	**(32.6)**	(12.7)
		(1,541.7)	(1,252.3)
Total liabilities		**(5,289.3)**	(3,344.2)
Net assets		**3,042.4**	598.1

Equity			
Called-up share capital	29/30	**97.7**	303.7
Share premium account	29	**10.1**	539.7
Merger reserve	29	**2,933.9**	–
Translation and hedging reserves	29/31	**(70.7)**	(22.7)
Retained earnings surplus/(deficit)	29	**66.8**	(255.2)
Investment in own shares	29	**(7.3)**	–
Equity attributable to equity holders of the parent		**3,030.5**	565.5
Minority interests	29	**11.9**	32.6
Total equity		**3,042.4**	598.1

These financial statements were approved by the Board of Directors on 30 January 2008.

Signed on behalf of the Board

L Heuberg
Director

GROUP CASH FLOW STATEMENT

For the year ended 31 October 2007

	Notes	2007 €m	2006 €m
Cash flows from operating activities			
Cash generated by operations	32	**281.5**	227.0
Income taxes paid	32	**(43.9)**	(44.3)
Net cash from operating activities	32	**237.6**	182.7
Investing activities			
Dividends received from associates		**–**	6.0
Proceeds on disposal of subsidiaries (net of cash sold)	18	**46.2**	97.1
Proceeds on disposal of associated undertakings		**55.8**	54.4
Proceeds on disposal of property, plant and equipment		**46.2**	54.9
Proceeds of sale of non-current assets held for sale		**32.7**	–
Purchase of subsidiaries (net of cash acquired)	18	**265.9**	–
Purchase of tangible and financial assets		**(35.6)**	(48.3)
Purchase of intangible assets		**(58.6)**	(28.2)
Purchase of non-current financial assets		**(7.2)**	–
Purchase of short-term securities		**(294.0)**	(59.6)
Net cash from investing activities		**51.4**	76.3
Financing activities			
Interest paid		**(47.4)**	(49.7)
Dividends paid to minority shareholders		**–**	(1.8)
Repayment of borrowings		**(22.5)**	(114.7)
Repayment of finance lease obligations		**(68.3)**	(34.3)
Purchase of own shares		**(7.3)**	–
Proceeds from issue of ordinary shares		**10.6**	–
Expenses of issue of ordinary shares		**(17.9)**	–
Net cash used in financing activities		**(152.8)**	(200.5)
Net increase in cash and cash equivalents		**136.2**	58.5
Cash and cash equivalents at beginning of year		**733.7**	670.9
Effect of foreign exchange rate changes		**(14.9)**	4.3
Cash and cash equivalents at end of year		**855.0**	733.7
Liquid assets		**892.8**	736.0
Cash classified as held for sale		**–**	0.2
Bank overdrafts		**(37.8)**	(2.5)
Cash and cash equivalents at end of year		**855.0**	733.7

1. GENERAL INFORMATION

Thomas Cook Group plc is a limited liability company incorporated and domiciled in England and Wales under the Companies Act 1985 and listed on the London Stock Exchange. The address of the registered office is The Thomas Cook Business Park, Coningsby Road, Peterborough, Cambridgeshire PE3 8SB. The principal activities of the Group are discussed in the Business Review and the Financial Review on pages 25 to 35.

These consolidated financial statements were approved for issue by the Board of Directors on 30 January 2008.

Following the merger between Thomas Cook AG and MyTravel Group plc on 19 June 2007, 52 per cent of the fully diluted share capital of the Company is controlled by Arcandor AG. As part of this transaction, all parties entered into a relationship agreement that enshrined the principle agreed between the parties that the Thomas Cook Group will operate independently from Arcandor AG and in accordance with the highest standards of corporate governance best practice. It also sets out the agreement of the parties regarding the composition of the Board of the Company.

The Directors consider that Arcandor AG is the Company's ultimate controlling party. The largest and smallest group of undertakings for which consolidated financial statements are prepared and which includes the financial statements of the Thomas Cook Group is that headed by Arcandor AG. Arcandor AG is incorporated in Germany and copies of its financial statements, which are publicly available, may be obtained from Arcandor AG, Theodor-Althoff-Str. 2, 45133 Essen, Germany.

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

With the exception of changes in disclosure, the Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

IAS 1 Amendment	Capital disclosures, effective for periods commencing on or after 1 January 2007.
IFRS 7	Financial instruments: Disclosures, issued in August 2005, effective for periods commencing on or after 1 January 2007.
IFRS 8	Operating segments, issued in November 2006, effective for periods beginning on or after 1 January 2009.
IFRIC 11	Group and treasury share transactions, issued in November 2006, effective for annual periods beginning on or after 1 March 2007.
IFRIC 13	Customer loyalty programmes, issued in June 2007, effective for annual periods beginning on or after 1 July 2008.
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction, issued in July 2007, effective for annual periods beginning on or after 1 January 2008.
IAS 1	Presentation of financial statements, revised version issued in September 2007, effective for annual periods beginning on or after 1 January 2009.
IAS 23	Borrowing costs, revised version issued in March 2007, effective for annual periods beginning on or after 1 January 2009.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to groups reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The only new standard or interpretation adopted during the current period was IFRIC 10 – Interim financial reporting and impairment. This interpretation had no effect on the financial statements for the period or those for the prior period.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES continued

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

Basis of preparation

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

Acquisitions are accounted for under the purchase method.

Where a transaction is a business combination amongst entities under common control, the requirements of IFRS 3 are applied and the combination is accounted for using the purchase method.

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

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

On 19 June 2007, Thomas Cook AG (TCAG) merged with MyTravel Group plc to become Thomas Cook Group plc (TCG plc). For statutory purposes the transaction is treated as a business combination effected by a new parent company, TCG plc. However, for accounting purposes this is a reverse acquisition of TCG plc by TCAG with the overall effect being that TCAG is treated as the acquirer of both TCG plc and MyTravel Group plc. These financial statements therefore include the full year of trading for TCAG and the trading of MyTravel Group plc for the period from 19 June 2007 to 31 October 2007. The comparative information includes the full year of trading for TCAG and none of the MyTravel Group plc results. All of the TCAG financial information has been presented in accordance with the accounting policies set out below.

Following the business combination, TCAG changed its accounting policy for pension accounting and made certain changes to the presentation of financial information from that in the TCAG financial statements for the year ended 31 October 2006. These presentational changes related to certain classifications and had no impact on the income statement or on net assets.

In its financial statements, TCAG had previously applied the corridor method to recognise in the income statement actuarial gains and losses over the expected working lives of employees in the plans. The Group now recognises all actuarial gains and losses arising from defined benefit plans directly in equity. As a consequence of listing in the UK and to bring the Group in line with prevailing practice in the UK, the Directors consider full recognition of the actuarial gains and losses in the Statement of Recognised Income and Expense is more appropriate.

The change in accounting policy has been recognised retrospectively and the 2006 comparatives have been restated from the TCAG financial statements. The impact of the change in policy is shown in the notes to the Statement of Recognised Income and Expense.

Interpretation guidance included within SIC Interpretation 12 "Consolidation – Special Purpose Entities" indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing and other arrangements with the Group, should be interpreted as being controlled by the Group, and therefore subject to consolidation, even though the Group has no direct or indirect equity interest in those entities. As a consequence, the Group has consolidated 12 SPEs.

The Directors consider that the principal functional currency of the Group is the euro and have therefore decided to adopt the euro as the presentational currency.

Associates and joint ventures

Entities, other than subsidiaries, over which the Group exerts significant influence, but not control or joint control, are associates. Entities which the Group jointly controls with one or more other party under a contractual arrangement are joint ventures.

The Group's share of the results of associates and joint ventures is included in the Group income statement using the equity accounting method. Investments in associates and joint ventures are included in the Group balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the entity, after adjustment for goodwill.

2. ACCOUNTING POLICIES
continued

Other non-current asset investments

Investments in equity instruments that do not have a quoted market price in an active market are measured at cost. Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Any impairment losses are recognised in the income statement.

Intangible assets – goodwill

Goodwill arising on an acquisition represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset, and is reviewed for impairment at least annually. Any impairment is recognised immediately in the Group's income statement and is not subsequently reversed.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets – other

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

Brands	10 years to indefinite life
Customer relationships	1 to 5 years
Computer software	3 to 10 years

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

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

Property, plant and equipment

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 straight line basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

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

Estimated residual values and useful lives are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES continued

Non-current assets held for sale

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

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

Aircraft overhaul and maintenance costs

The cost of major overhauls of owned and finance leased engines, auxiliary power units and airframes is capitalised and then amortised over between two and 10 years until the next scheduled major overhaul, except where the maintenance of engines and auxiliary power units is carried out under fixed rate contracts, in which case the cost is spread over the period of the contract. Provision is made for the future costs of major overhauls of leased engines, auxiliary power units and airframes by making appropriate charges to the income statement, calculated by reference to hours flown and/or the expired lease period, as a consequence of obligations placed upon the Group under the terms of certain of the operating leases.

Inventories

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

Revenue recognition and associated costs

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

Income statement presentation

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

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

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

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.

2. ACCOUNTING POLICIES
continued

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. Deferred tax liabilities are recognised for the retained earnings of overseas subsidiaries, joint ventures and associates unless the Group is able to control the timing of the distribution of those earnings and it is probable that they will not be distributed in the foreseeable future.

Pensions

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

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

Foreign currency

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

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

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

Leases

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

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

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

Derivative financial instruments

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

If a hedged transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the asset or liability. For all other cash flow hedges, the associated cumulative gain or loss is removed from the hedging reserve and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. ACCOUNTING POLICIES continued

Non-derivative financial instruments

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

Trade receivables

Trade receivables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method as reduced by allowances for estimated irrecoverable amounts.

Available-for-sale financial assets

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

Held for trading investments

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

Trade payables

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

Borrowings

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

Provisions

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

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

Share-based payments

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

Insurance contracts and reinsurance contracts

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

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

2. ACCOUNTING POLICIES
continued

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

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

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

Critical judgements in applying the Group's accounting policies

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

Residual values of tangible fixed assets

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

Recoverable amounts of goodwill and intangible assets with an indefinite life

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

Special purpose entities

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

Key sources of estimation uncertainty

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

Impairment of goodwill and intangible assets with an indefinite life

Determining whether goodwill or intangible assets with an indefinite life are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amounts of goodwill and intangible assets with an indefinite life at the balance sheet date were €3,550.0 million and €282.4 million respectively. No impairment losses were recorded during the year.

Recoverable amounts of deposits and prepayments

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

Aircraft maintenance provisions

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

Tax

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL INFORMATION

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

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

Segmental information for these activities is presented below.

Primary segments – management structure

	UK and Ireland 2007 €m	Continental Europe 2007 €m	Northern Europe 2007 €m	North America 2007 €m	Airlines Germany 2007 €m	Corporates 2007 €m	Total 2007 €m
Year ended 31 October 2007							
Revenue							
Segment sales	3,635.6	4,482.5	446.2	122.2	1,262.4	0.4	9,949.3
Inter-segment sales	(6.2)	(5.7)	(3.5)	–	(494.6)	–	(510.0)
Total revenue	3,629.4	4,476.8	442.7	122.2	767.8	0.4	9,439.3
Result							
Profit/(loss) from operations before exceptional items and amortisation of business combination intangibles	250.1	99.5	63.9	(3.3)	68.1	(22.9)	455.4
Exceptional items	(158.1)	3.9	(3.1)	(0.2)	0.2	(27.5)	(184.8)
Amortisation of business combination intangibles	(17.0)	–	(26.5)	0.4	–	–	(43.1)
Segment result	75.0	103.4	34.3	(3.1)	68.3	(50.4)	227.5
Share of results of associates and joint ventures							2.6
Profit on disposal of associates							52.4
Net investment income							2.5
Finance income							109.3
Finance costs							(110.0)
Profit before tax							284.3
Tax							(58.8)
Profit for the year							225.5

3. SEGMENTAL INFORMATION
continued

Primary segments – management structure continued

	UK and Ireland 2007 €m	Continental Europe 2007 €m	Northern Europe 2007 €m	North America 2007 €m	Airlines Germany 2007 €m	Corporates 2007 €m	Total 2007 €m
Year ended 31 October 2007							
Other information							
Capital additions	35.4	17.4	5.0	1.6	2.7	32.8	94.9
Depreciation	25.0	14.4	3.2	0.1	82.9	1.2	126.8
Amortisation of intangible assets	27.4	5.4	26.7	–	–	11.0	70.5
Impairment of property, plant & equipment	4.5	0.3	–	–	–	–	4.8
Reversal of impairment of property, plant & equipment	–	(0.2)	–	–	–	–	(0.2)
Impairment of intangible assets	1.1	3.0	–	–	–	–	4.1
Impairment of non-current investments	–	2.3	–	–	–	–	2.3
Balance sheet							
Assets							
Segment assets	4,230.0	1,647.3	1,922.2	356.1	1,381.2	2,069.9	11,606.7
Inter-segment eliminations							(3,781.3)
							7,825.4
Investments in associates and joint ventures							51.2
Tax and deferred tax assets							455.1
Total assets							8,331.7
Liabilities							
Segment liabilities	2,358.5	1,069.9	598.2	304.5	802.0	2,802.1	7,935.2
Inter-segment eliminations							(3,781.3)
							4,153.9
Tax and deferred tax liabilities							232.9
Borrowings and obligations under finance leases							902.5
Total liabilities							5,289.3

Inter-segment sales are charged at prevailing market prices.

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

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

Tax and deferred tax assets include €2.1 million (2006: €2.9 million) included within non-current assets held for sale and tax and deferred tax liabilities include €0.4 million (2006: €0.5 million) included in liabilities related to assets held for sale. Borrowings also include €9.3 million (2006: €9.3 million) included in liabilities related to assets held for sale (see note 28).

Capital additions comprise additions to property, plant and equipment (note 16) and other intangible assets (note 15).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. SEGMENTAL INFORMATION continued

	UK and Ireland 2006 €m	Continental Europe 2006 €m	Northern Europe 2006 €m	North America 2006 €m	Airlines Germany 2006 €m	Corporates 2006 €m	Total 2006 €m
Year ended 31 October 2006							
Revenue							
Segment sales	2,484.9	4,574.6	–	–	1,242.3	54.6	8,356.4
Inter-segment sales	(2.2)	(6.8)	–	–	(547.9)	(19.3)	(576.2)
Total revenue	2,482.7	4,567.8	–	–	694.4	35.3	7,780.2
Result							
Profit/(loss) from operations before exceptional items	80.7	99.2	–	–	38.1	(37.1)	180.9
Exceptional items	39.1	(24.8)	–	–	4.4	18.6	37.3
Segment result	119.8	74.4	–	–	42.5	(18.5)	218.2
Share of results of associates and joint ventures							4.9
Profit on disposal of associates							20.4
Net investment income							0.9
Finance income							76.4
Finance costs							(101.8)
Profit before tax							219.0
Tax							(39.2)
Profit for the year							179.8
Other information							
Capital additions	17.5	13.9	–	–	4.8	25.2	61.4
Depreciation	17.9	13.0	–	–	94.7	6.4	132.0
Amortisation of intangible assets	6.7	6.1	–	–	–	11.9	24.7
Impairment of non-current assets held for sale	–	8.4	–	–	–	–	8.4
Balance sheet							
Assets							
Segment assets	1,719.6	1,265.5	–	–	1,432.1	727.6	5,144.8
Inter-segment eliminations							(1,516.1)
							3,628.7
Investments in associates and joint ventures							41.8
Tax and deferred tax assets							271.8
Total assets							3,942.3
Liabilities							
Segment liabilities	974.1	873.1	–	–	762.6	1,434.0	4,043.8
Inter-segment eliminations							(1,516.1)
							2,527.7
Tax and deferred tax liabilities							73.5
Borrowings and obligations under finance leases							743.0
Total liabilities							3,344.2

4. PERSONNEL EXPENSES

	2007 €m	2006 €m
Wages and salaries	**901.9**	726.6
Social security costs	**126.8**	101.5
Defined benefit pension costs (see note 37)	**41.5**	12.3
Other pension costs (see note 37)	**14.8**	–
	1,085.0	840.4

The average number of employees of the Group during the year was:

	2007 Number	2006 Number
UK and Ireland	**11,953**	9,883
Continental Europe	**6,121**	6,055
Northern Europe	**1,000**	–
North America	**341**	–
Airlines Germany	**2,300**	2,315
Corporates	**386**	1,522
	22,101	19,775

Disclosures of Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 56 to 64 within the Remuneration report and form part of these audited financial statements.

These disclosures relate to the period from 19 June 2007 to 31 October 2007. Disclosures in respect of remuneration of key management personnel for the full year are included in note 38.

5. OTHER OPERATING EXPENSES

	2007 €m	2006 €m
Advertising expenses	**174.6**	164.1
Rents and expenses for building maintenance	**191.4**	132.2
Information technology costs	**111.9**	92.3
Travel expenses and ancillary personnel expenses	**73.2**	57.3
Telecommunications costs	**42.6**	43.6
Legal and consultancy fees	**48.6**	29.9
Impairment of current and non-current assets	**29.2**	31.7
Insurance	**16.9**	18.2
Training expenses	**15.5**	12.5
Other taxes	**6.8**	6.8
Other operating expenses	**85.7**	111.5
	796.4	700.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. EXCEPTIONAL ITEMS

	2007 €m	2006 €m
Property costs, redundancy and other costs incurred in integrating the Thomas Cook and MyTravel businesses	**(133.3)**	–
Disposal of businesses	**–**	32.4
Disposal of property, plant and equipment	**3.0**	21.0
Disposal of non-current assets held for sale	**14.9**	–
Disposal of brand rights	**–**	10.8
Exceptional past service credit in pension scheme	**–**	31.2
Property costs, redundancy and other costs incurred in other reorganisations	**(19.6)**	(46.5)
Impairment of property, plant and equipment, intangible assets, non-current investments and assets held for sale	**(11.2)**	(8.4)
Loan write offs, impairment of trade receivables and other assets	**(1.8)**	(3.2)
Cost of irrecoverable aircraft passenger duty	**(9.4)**	–
Abortive transaction fees	**(10.5)**	–
Other expenses incurred as a result of the merger	**(16.9)**	–
Exceptional items included within operating profit	**(184.8)**	37.3

Exceptional items have been included in the income statement as follows:		
Revenue	**–**	10.8
Cost of providing tourism services	**(16.2)**	–
Other operating income	**0.9**	–
Personnel expenses	**(97.0)**	(6.9)
Depreciation and amortisation	**(1.7)**	–
Other operating expenses	**(88.7)**	(20.0)
Profit on disposal of businesses and property, plant and equipment	**3.0**	53.4
Profit on disposal of non-current assets held for sale	**14.9**	–
	(184.8)	37.3

Share of associates' exceptional items		
Impairment of investments in associates (see note 7)	**–**	(7.5)
Profit on disposal of associates	**52.4**	20.4
	52.4	12.9

Total exceptional items	**(132.4)**	50.2

The profit on disposal of associates of €52.4 million principally relates to the disposal of the Group's 50 per cent interest in SunExpress, an airline based in Turkey, to Arcandor on an arm's length basis. The proceeds from the sale amounted to €54.0 million in cash and resulted in a profit on disposal of €50.1 million.

In addition, during the year, the Group disposed of its interests in Falstacen S.L., Thomas Cook Thailand and Troll Tours Reisen GmbH, realising further profits of €2.3 million. Deferred consideration of €5.8 million in relation to these disposals is expected to be received by 1 November 2008.

7. SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

	2007 €m	2006 €m
Group's share of the results of associates and joint ventures before exceptional items	**2.6**	12.4
Exceptional items – impairment of investments in associates	**–**	(7.5)
	2.6	4.9

8. NET INVESTMENT INCOME

	2007 €m	2006 €m
Dividends received from other investments	**1.8**	0.9
Interest on fixed asset investments	**0.7**	–
	2.5	0.9

9. FINANCE INCOME

	2007 €m	2006 €m
Income from loans included in financial assets	**1.3**	0.3
Other interest and similar income	**49.7**	35.6
Expected return on pension plan assets	**57.4**	39.0
Fair value gains on derivative financial instruments	**0.9**	1.5
	109.3	76.4

10. FINANCE COSTS

	2007 €m	2006 €m
Interest payable	**30.3**	17.8
Finance costs in respect of finance leases	**19.0**	30.2
Interest cost on pension plan liabilities	**56.0**	51.0
Fair value losses on derivative financial instruments	**–**	0.1
Interest on overdue tax	**0.4**	–
Other finance costs (including discounting charges)	**4.3**	2.7
	110.0	101.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. PROFIT BEFORE TAX

		2007 €m	2006 €m
Profit before tax for the year has been arrived at after charging/(crediting):			
Net foreign exchange gains		**(39.4)**	(14.6)
Depreciation of property, plant and equipment	– owned assets	**76.3**	80.8
	– held under finance leases	**50.5**	51.2
Amortisation of intangible assets		**27.4**	24.7
Amortisation of business combination intangibles		**43.1**	–
Cost of inventories recognised as expense		**58.5**	33.8
Profit on disposal of associates		**(52.4)**	(20.4)
Operating lease rentals payable	– hire of aircraft and aircraft spares	**115.6**	80.9
	– other	**149.3**	128.3
Exceptional items (see note 6)		**184.8**	(37.3)
Including: Impairment of property, plant and equipment		**4.8**	–
Impairment of non-current investments		**2.3**	–
Impairment of non-current assets held for sale		**–**	8.4
Impairment of intangible assets		**4.1**	–
Staff costs (see note 4)		**1,085.0**	840.4
Auditors' remuneration (see below)		**14.2**	2.9

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

	2007 €m	2006 €m
PricewaterhouseCoopers LLP		
Fees payable to the Company's auditors for the audit of the Company's financial statements	**0.6**	0.2
Fees payable to the Company's auditors and their associates for other services:		
the audit of the Company's subsidiaries pursuant to legislation	**1.8**	1.8
Total audit fees	**2.4**	2.0
other services pursuant to legislation	**0.1**	0.2
tax services	**0.5**	0.1
information technology services	**0.5**	–
valuation and actuarial services	**0.2**	–
recruitment and remuneration services	**0.7**	–
services relating to corporate finance transactions	**3.6**	0.1
all other services	**0.5**	0.5
Total non-audit fees	**6.1**	0.9
Total fees	**8.5**	2.9

11. PROFIT BEFORE TAX
continued

	2007 €m	2006 €m
Deloitte & Touche LLP		
Fees payable to the Company's auditors for the audit of the Company's financial statements	**0.3**	–
Fees payable to the Company's auditors and their associates for other services:		
the audit of the Company's subsidiaries pursuant to legislation	**1.2**	–
Total audit fees	**1.5**	–
other services pursuant to legislation	**0.1**	–
tax services	**1.0**	–
information technology services	**0.3**	–
services relating to corporate finance transactions	**2.8**	–
Total non-audit fees	**4.2**	–
Total fees	**5.7**	–

€3.0 million of the non-audit fees paid to Deloitte & Touche LLP were earned before the date of the merger of MyTravel Group plc and Thomas Cook AG.

Fees paid to the Company's joint auditors and their associates for services other than the statutory audit of the Company are not disclosed in subsidiaries' accounts since the consolidated accounts of the subsidiaries' parent, Thomas Cook Group plc, are required to disclose non-audit fees on a consolidated basis.

A description of the work of the Audit and Risk Management Committee is set out in the Corporate Governance Report on page 52 and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditors.

12. TAX

		2007 €m	2006 €m
Analysis of tax charge in the year			
Current tax			
UK	corporation tax charge for the year	**–**	33.6
	income/reimbursements in respect of prior periods	**(0.4)**	(6.6)
		(0.4)	27.0
Overseas	corporation tax charge for the year	**37.0**	35.8
	income/reimbursements in respect of prior periods	**(23.8)**	(19.9)
		13.2	15.9
Total current tax		**12.8**	42.9
Deferred tax			
	tax charge/(credit) for the year	**47.9**	(3.7)
	adjustments in respect of prior periods	**(1.9)**	–
Total deferred tax		**46.0**	(3.7)
Total tax charge		**58.8**	39.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. TAX
continued

	2007 €m	2006 €m
Tax reconciliation		
Profit before tax	**284.3**	219.0
Expected tax charge at the UK corporation tax rate of 30% (2006: 30%)	**85.3**	65.7
Impact of changes in tax rates	**9.7**	–
Income not liable for tax	**(21.6)**	(45.0)
Expenses not deductible for tax purposes	**13.6**	–
Difference in rates of tax suffered on overseas earnings	**3.7**	(1.4)
Impact of disposal of subsidiaries	**–**	23.5
Losses for which tax relief is not available	**–**	0.5
Utilisation of tax losses not previously recognised	**(4.2)**	(10.2)
Income tax charges in respect of prior periods	**(26.1)**	7.0
Other	**(1.6)**	(0.9)
Tax charge	**58.8**	39.2

In addition to the amount charged to the income statement, deferred tax relating to actuarial losses on pension schemes and the fair value of derivative financial instruments of €61.3 million has been charged directly in equity (2006: €46.7 million credited).

UK corporation tax is calculated at 30 per cent (2006: 30 per cent) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Surplus losses not recognised in deferred tax of €800.0 million (2006: €162.0 million) are available in the UK and Germany for offset against future profits.

13. DIVIDENDS

	2007 €m	2006 €m
Proposed final dividend for the year ended 31 October 2007 of 5 pence (sterling) (€cents 7.17) per share (2006: nil)	**70.0**	–

No dividends were declared or paid during the year (2006: nil).

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

14. EARNINGS PER SHARE

The calculations for earnings per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown excludes 0.5 million shares held by the employee share ownership trusts (2006: nil).

	2007 €m	2006 €m
Basic and diluted earnings per share		
Net profit attributable to equity holders of the parent	**224.1**	176.7

	millions	millions
Weighted average number of shares for basic earnings per share	**681.1**	508.8
Effect of dilutive potential ordinary shares – share options*	**0.8**	–
Weighted average number of shares for diluted earnings per share	**681.9**	508.8

*Awards of shares under the Thomas Cook Group plc executive share option scheme will be satisfied by the purchase of existing shares in the market and will therefore not result in any dilution of earnings per share. The outstanding share options of MyTravel Group plc will result in the issue of a further 1,533,551 ordinary shares of Thomas Cook Group plc which are potentially dilutive.

	€	€
Basic earnings per share	**0.33**	0.35
Diluted earnings per share	**0.33**	0.35

Adjusted earnings per share figures are presented below. These exclude the effects of exceptional items, amortisation of business combination intangibles and the combined tax effect thereof. Adjusted earnings per share are presented to allow comparison to the prior period on a like-for-like basis.

	€m	€m
Adjusted earnings per share		
Net profit attributable to equity holders of the parent	**224.1**	176.7
Amortisation of business combination intangibles	**43.1**	–
Tax relating to amortisation of business combination intangibles	**(7.2)**	–
Exceptional items		
Included in profit from operations (note 6)	**184.8**	(37.3)
Included in share of associates and joint ventures (note 6)	**(52.4)**	(12.9)
Tax relating to the exceptional items	**(22.1)**	–
Adjusted net profit attributable to equity holders of the parent	**370.3**	126.5

	millions	millions
Weighted average number of shares for basic earnings per share	**681.1**	508.8
Effect of dilutive potential ordinary shares – share options	**0.8**	–
Weighted average number of shares for diluted earnings per share	**681.9**	508.8

	€	€
Basic adjusted earnings per share	**0.54**	0.25
Diluted adjusted earnings per share	**0.54**	0.25

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INTANGIBLE ASSETS

	2007 €m	2006 €m
Goodwill	**3,550.0**	1,143.0
Business combination intangible assets	**460.8**	–
Other	**116.0**	71.3
	4,126.8	1,214.3

Goodwill

	€m
Cost	
At 1 November 2005	1,309.9
Additions	0.3
Disposals	(42.8)
Transfer to non-current assets held for sale	(0.7)
Exchange differences	2.5
At 31 October 2006	1,269.2
Acquisitions (note 18) – MyTravel	2,396.3
– other	56.3
Disposals	(0.2)
Exchange differences	(45.4)
At 31 October 2007	3,676.2
Accumulated impairment losses	
At 1 November 2005	127.3
Transfer to non-current assets held for sale	(0.7)
Disposals	(0.4)
At 31 October 2006	126.2
Impairment losses for the year	–
At 31 October 2007	126.2
Carrying amount	
At 31 October 2007	**3,550.0**
At 31 October 2006	1,143.0

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

	2007 €m	2006 €m
UK and Ireland	**2,381.8**	1,000.9
Continental Europe	**171.6**	142.1
Northern Europe	**837.9**	–
North America	**133.6**	–
Airlines Germany	**25.1**	–
	3,550.0	1,143.0

15. INTANGIBLE ASSETS
continued

In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment.

At 31 October 2007, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections discounted at 10 per cent to 11 per cent (2006: 11.8 per cent to 15.4 per cent).

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

The goodwill attributable to Airlines Germany is supported by the fair value less costs to sell of the business.

There were no impairment losses for the year (2006: nil).

Business combination intangibles

	Brands and customer relationships €m	Order backlog €m	Computer software €m	Total €m
Cost				
Acquisitions (note 18) – MyTravel	439.4	49.5	17.9	506.8
Exchange differences	(2.2)	(0.7)	–	(2.9)
At 31 October 2007	437.2	48.8	17.9	503.9
Amortisation				
Charge for the year	13.5	28.1	1.5	43.1
At 31 October 2007	13.5	28.1	1.5	43.1
Carrying amount				
At 31 October 2007	**423.7**	**20.7**	**16.4**	**460.8**

On the acquisition of the MyTravel Group, fair values were attributed to the brands, customer relationships, confirmed orders on hand at the acquisition date and certain computer software that had no carrying amount in the books of MyTravel. Brands with an initial fair value of €283.8 million are regarded as having an indefinite life and are not being amortised; the remainder are being amortised over a period of 10 years. Customer relationships are being amortised over periods of one to five years. Order backlog is being amortised over the period from acquisition to departure and computer software over a period of four years.

The carrying values of brands with an indefinite life analysed by business segment are as follows:

	2007 €m	2006 €m
UK and Ireland	**97.8**	–
Northern Europe	**154.2**	–
North America	**30.4**	–
	282.4	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INTANGIBLE ASSETS continued

Other intangible assets

	Concessions and computer software		Other	
	Purchased €m	Internally generated €m	Purchased €m	Total €m
Cost				
At 1 November 2005	155.3	31.7	–	187.0
Additions	23.7	4.2	–	27.9
Exchange differences	0.4	–	–	0.4
Disposal of subsidiary undertakings	(2.3)	–	–	(2.3)
Transfer to non-current assets held for sale	(0.1)	–	–	(0.1)
Disposals	(4.2)	(1.5)	–	(5.7)
At 31 October 2006	172.8	34.4	–	207.2
Additions	54.3	4.3	–	58.6
Acquisitions (note 18)	12.7	4.2	0.9	17.8
Exchange differences	(1.0)	(0.2)	–	(1.2)
Reclassification	(0.5)	0.5	–	–
Transfer from non-current assets held for sale	0.1	–	–	0.1
Disposals	(3.0)	(0.2)	–	(3.2)
At 31 October 2007	235.4	43.0	0.9	279.3
Amortisation				
At 1 November 2005	102.0	11.3	–	113.3
Disposal of subsidiary undertakings	(1.2)	–	–	(1.2)
Charge for the year	18.8	5.9	–	24.7
Exchange differences	0.4	–	–	0.4
Transfer to non-current assets held for sale	(0.1)	–	–	(0.1)
Disposals	(0.3)	(0.9)	–	(1.2)
At 31 October 2006	119.6	16.3	–	135.9
Charge for the year	19.3	7.9	0.2	27.4
Impairment losses	4.1	–	–	4.1
Exchange differences	(1.0)	(0.2)	–	(1.2)
Transfer from non-current assets held for sale	0.1	–	–	0.1
Disposals	(3.0)	–	–	(3.0)
At 31 October 2007	139.1	24.0	0.2	163.3
Carrying amount				
At 31 October 2007	**96.3**	**19.0**	**0.7**	**116.0**
At 31 October 2006	53.2	18.1	–	71.3

Computer software is amortised on a straight line basis over its estimated useful life of between three and 10 years.

Concessions include the value of licences granted to the Group, as well as copyrights and trademarks and similar items.

Licences are amortised over the period of the licence, up to a maximum of 10 years, and other items over their estimated useful lives of between three and five years.

16. PROPERTY, PLANT AND EQUIPMENT

	Aircraft and aircraft spares €m	Other property, plant and equipment: Freehold land and buildings €m	Short leaseholds €m	Other fixed assets €m	Total €m
Cost					
At 1 November 2005	1,560.4	348.8	173.7	268.4	790.9
Additions	5.4	1.1	8.8	17.9	27.8
Exchange differences	0.5	0.4	1.1	0.6	2.1
Disposals	(23.5)	(10.0)	(7.2)	(6.6)	(23.8)
Disposal of subsidiary undertakings	–	(119.2)	(8.7)	(45.7)	(173.6)
Transfer to non-current assets held for sale	–	(32.8)	–	(15.1)	(47.9)
At 31 October 2006	1,542.8	188.3	167.7	219.5	575.5
Additions	6.3	3.3	8.5	18.2	30.0
Acquisitions (note 18) – MyTravel	291.4	77.6	20.4	55.3	153.3
– other	–	–	–	0.1	0.1
Exchange differences	(11.8)	(0.7)	(4.7)	(4.8)	(10.2)
Transfer from non-current assets held for sale	–	–	3.4	7.7	11.1
Reclassification	–	0.7	(0.1)	(0.6)	–
Disposals	(39.7)	(0.5)	(8.2)	(4.7)	(13.4)
At 31 October 2007	1,789.0	268.7	187.0	290.7	746.4
Accumulated depreciation and impairment					
At 1 November 2005	832.5	97.4	102.8	198.2	398.4
Charge for the year	94.7	5.3	10.4	21.6	37.3
Exchange differences	0.5	0.1	1.0	0.5	1.6
Disposals	(19.9)	(4.8)	(5.4)	(7.3)	(17.5)
Disposal of subsidiary undertakings	–	(32.6)	(4.7)	(30.5)	(67.8)
Transfer to non-current assets held for sale	–	(5.6)	–	(11.3)	(16.9)
At 31 October 2006	907.8	59.8	104.1	171.2	335.1
Charge for the year	92.2	5.4	11.6	17.6	34.6
Provision for impairment	0.6	–	1.8	2.4	4.2
Reversal of impairment provision	–	(0.2)	–	–	(0.2)
Exchange differences	(0.5)	(0.4)	(3.3)	(3.7)	(7.4)
Transfer from non-current assets held for sale	–	–	1.8	5.7	7.5
Disposals	(24.6)	(0.4)	(7.8)	(3.9)	(12.1)
At 31 October 2007	975.5	64.2	108.2	189.3	361.7
Carrying amount					
At 31 October 2007	**813.5**	**204.5**	**78.8**	**101.4**	**384.7**
At 31 October 2006	635.0	128.5	63.6	48.3	240.4

Freehold land with a cost of €45.1 million (2006: €37.5 million) has not been depreciated.

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

The net book value of aircraft and aircraft spares includes €433.4 million (2006: €338.3 million) in respect of assets held under finance leases.

The net book value of other property, plant and equipment includes €16.9 million (2006: €17.5 million) in respect of assets held under finance leases.

Capital commitments

	2007 €m	2006 €m
Capital expenditure contracted but not provided for in the accounts	**12.7**	8.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. NON-CURRENT ASSET INVESTMENTS

	Associated and joint venture undertakings €m	Other investments €m	Total €m
Cost			
At 1 November 2006	75.8	23.0	98.8
Acquisitions (note 18) – MyTravel	11.2	20.1	31.3
– other	–	0.1	0.1
Disposals	(4.1)	(1.2)	(5.3)
Share of result of associates and joint ventures after tax	2.6	–	2.6
Exchange differences	0.5	(0.7)	(0.2)
At 31 October 2007	86.0	41.3	127.3
Amounts written off or provided			
At 1 November 2006	34.9	0.9	35.8
Impairment losses	–	2.3	2.3
Disposals	(0.1)	(0.1)	(0.2)
At 31 October 2007	34.8	3.1	37.9
Carrying amount			
At 31 October 2007	**51.2**	**38.2**	**89.4**
At 31 October 2006	40.9	22.1	63.0

Associated undertakings

Investments in associated undertakings at 31 October 2007 included 40 per cent interests in Viajes Iberoservice S.A., an incoming agency and hotel company, and Hispano Alemana de Management Hotelero S.A., a hotel management company. Both companies are based in Palma de Mallorca, Spain. Investments also include a 25.1 per cent interest in Oasis Company SAE, a hotel company in Egypt.

The investment in associated undertakings acquired with MyTravel represents a 19.99 per cent interest in Aqua Sol, a quoted hotel group based in Cyprus. The interest consists of 51,574,200 of the existing shares of Aqua Sol. This investment is regarded as an associated undertaking and is accounted for under the equity method as the Group is represented on the Board of Directors of Aqua Sol and, therefore, has significant influence over that undertaking. The market value of the Group's investment in Aqua Sol at 31 October 2007 was €16.0 million compared with a carrying amount of €13.6 million.

Joint venture

During the year, the Group has entered into a joint venture arrangement with Barclays Bank, Thomas Cook Personal Finance Limited, the Group's share being 50 per cent.

	2007 Joint ventures €m	**2007 Associates €m**	2006 Associates €m
Summarised financial information in respect of the associated and joint venture undertakings is as follows:			
Total assets	**41.7**	**535.6**	428.1
Total liabilities	**(48.0)**	**(253.1)**	(284.4)
Net assets	**(6.3)**	**282.5**	143.7
Group's share of net assets	**(3.2)**	**74.2**	48.8
Revenue	**(0.5)**	**350.2**	426.0
Profit for the year	**(6.5)**	**20.7**	30.6
Group's share of associates and joint ventures profit/(loss) for the year	**(3.2)**	**5.8**	12.4

17. NON-CURRENT ASSET INVESTMENTS continued

The financial statements of Viajes Iberoservice S.A. are made up to 31 October each year. The financial statements of the other associated undertakings are made up to 31 December each year, being their financial reporting date. For the purposes of applying the equity method of accounting for 2007, the financial statements of these undertakings for the year ended 31 December 2006 have been used together with management accounts for the period from 1 January 2007 to 31 October 2007.

Other investments

Other investments include €19.4 million in respect of the Group's investment, as a member of the Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises ordinary shares and loan notes carrying interest at 8 per cent and 11 per cent in the Airline Group.

Other investments also include €10.8 million in respect of a 10 per cent interest in L'tur Tourismus AG, a German package tour operator, and €6.4 million in respect of a 24.9 per cent interest in Aldiana GmbH, a German tour operator. Aldiana is not accounted for under the equity method as the Group does not have significant influence over its activities.

18. SUBSIDIARIES

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest, is given in note 13 to the Company's separate financial statements. All of the subsidiary undertakings have been consolidated in the Group accounts.

Interpretation guidance included within SIC Interpretation 12 "Consolidation – Special Purpose Entities" indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing arrangements with the Group should be interpreted as being controlled by the Group, and therefore subject to consolidation, even though the Group has no direct or indirect equity interest in those entities. As a consequence, the Group has consolidated 12 SPEs that own 11 aircraft operated by the Group on operating leases.

Acquisitions

On 19 June 2007, the Group acquired 100 per cent of the share capital of MyTravel Group plc, a leading provider of package holidays, with operations in the UK and Ireland, Northern Europe and North America.

As explained under Basis of preparation in note 2, for accounting purposes Thomas Cook AG is treated as the acquirer of both Thomas Cook Group plc and MyTravel Group plc.

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

	Carrying amount before combination €m	Fair value adjustments €m	Amount recognised at acquisition date €m
Intangible assets	211.3	313.3	524.6
Property, plant and equipment	525.3	(80.6)	444.7
Deferred tax assets	16.0	277.1	293.1
Investments	11.3	20.0	31.3
Other non-current assets	75.8	(1.3)	74.5
Current assets	541.1	(3.1)	538.0
Cash and cash equivalents	338.7	–	338.7
Current liabilities	(1,686.0)	(20.4)	(1,706.4)
Non-current liabilities	(38.0)	–	(38.0)
Borrowings and finance lease obligations	(235.7)	–	(235.7)
Deferred tax liabilities	(29.0)	(110.1)	(139.1)
Provisions	(125.5)	(145.1)	(270.6)
Net liabilities acquired	(394.7)	249.8	(144.9)
Goodwill			2,396.3
Total consideration			2,251.4
Satisfied by: issue of ordinary shares			2,205.6
directly attributable costs (of which €31.8 million cash costs during period)			45.8
			2,251.4

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. SUBSIDIARIES continued

Acquisitions continued

Consideration took the form of one ordinary share in Thomas Cook Group plc in exchange for the cancellation of each ordinary share in MyTravel Group plc. In total 463,157,278 ordinary shares in Thomas Cook Group plc were issued in respect of the acquisition. The fair value of the consideration was determined by the closing price of the MyTravel Group plc shares on 18 June 2007 of £3.22 per share. Costs associated with the acquisition were €45.8 million.

Since 19 June 2007, Thomas Cook Group plc has acquired a further 4,929,028 ordinary shares of MyTravel Group plc issued pursuant to the exercise of outstanding MyTravel share options. The cost of acquisition of these shares was €10.6 million and was satisfied by the issue of the same number of new Thomas Cook Group plc ordinary shares for cash.

Goodwill includes the fair value of the synergies expected to arise following the combination and the fair value of the expertise of the acquired entity's workforce. The fair value adjustments detailed above are provisional as the fair value review has not been wholly completed. Any adjustments to the above values will be incorporated in the Group's interim financial statements for 2007/8.

The main elements of the significant provisional fair value adjustments recognised are described below:

Intangible assets in respect of acquired brands and customer lists in accordance with IFRS 3 – Business combinations;
Deferred tax assets in recognition of acquired accumulated tax losses;
Deferred tax liabilities in relation to the acquired intangible assets;
Provisions in respect of off-market leases.

From the date of acquisition, MyTravel Group has contributed €48.0 million to the Group's profit before tax for the period.

If the transaction had taken place at the start of this financial period, the revenue of the Group would have been €11,684.6 million and the Group's profit before tax would have been €176.5 million.

The transaction has been accounted for by the purchase method of accounting.

On 31 August 2007, the Group acquired the business of Travel Plus s.r.o., a Czech distributor of leisure travel services.

Travel Plus also owns the subsidiaries Dusek Tours s.r.o. (100 per cent) and Cestovni Kancelar Oriana s.r.o. (51 per cent). The purchase price was CZK70 million of which CZK49 million has been paid in cash and the balance of CZK21 million is deferred to the end of a guarantee period which cannot exceed five years.

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

	Fair value €m
Net assets acquired	
Property, plant and equipment	0.1
Non-current asset investments	0.1
Trade and other receivables	1.3
Cash and cash equivalents	0.8
Trade and other payables	(1.9)
	0.4
Goodwill	2.1
Total consideration	2.5
Satisfied by: cash	1.8
deferred consideration	0.7
	2.5

The purchase price of each asset component of the acquisition is considered to represent its fair value.

The companies contributed €0.1 million to the Group's profit before tax for the period.

The transaction has been accounted for by the purchase method of accounting.

18. SUBSIDIARIES
continued

Acquisitions continued

The agreement between Arcandor and Lufthansa on 2 April 2007, whereby Arcandor acquired the remaining 50 per cent interest in Thomas Cook AG that it did not already own, also affected the interests of Thomas Cook AG in its subsidiaries, TC Touristik GmbH (TCT), the German tour operator, and Condor Flugdienst GmbH, the German airline.

Before the transaction, Thomas Cook AG owned 90 per cent of both companies. As part of the agreement, Thomas Cook AG acquired the remaining 10 per cent interest in TCT at a value of €40 million and sold 14.9 per cent of the total Condor share capital to Lufthansa for €46.2 million.

Based on the Condor sales agreement, Thomas Cook AG has the right to acquire and Lufthansa has the right to sell Lufthansa's 24.9 per cent interest in Condor for a fixed price of €77 million (put/call options). These options are exercisable on 9 February 2009 at the earliest. As a result of the call and put options, all risks and rewards of the Condor investment remain with Thomas Cook AG.

The effect of these transactions on the Group balance sheet was:

	Fair value €m
Goodwill – Condor	25.1
– TCT	29.1
Cash and cash equivalents	6.2
Minority interests	18.4
Trade and other payables	(1.2)
Liability for option	(77.6)
	–

Net cash inflow arising on acquisitions:

	MyTravel €m	Travel Plus €m	TCT €m	Total €m
Cash consideration - shares	–	(1.8)	(40.0)	(41.8)
– attributable costs	(31.8)	–	–	(31.8)
Cash and cash equivalents acquired	338.7	0.8	–	339.5
	306.9	(1.0)	(40.0)	265.9

Net cash inflow arising on disposal:

	€m
Cash consideration – Condor	46.2

19. INVENTORIES

	2007 €m	2006 €m
Goods held for resale	**18.4**	8.1
Raw materials and supplies	**9.0**	2.4
	27.4	10.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. TRADE AND OTHER RECEIVABLES

	2007 €m	2006 €m
Non-current assets		
Deposits and prepayments	**100.1**	41.6
Loans	**21.2**	34.0
Securities	**6.1**	5.6
Trade receivables	**0.2**	0.1
Amount owed by parent undertaking	**4.7**	-
Other receivables	**9.5**	3.0
	141.8	84.3
Current assets		
Trade receivables	**302.9**	141.6
Amounts owed by associated and joint venture undertakings	**15.4**	12.1
Amounts owed by parent undertaking	**4.9**	4.8
Deposits and prepayments	**403.4**	258.8
Loans	**3.4**	3.7
Securities	**366.7**	72.7
Other taxes	**48.5**	18.6
Other receivables	**94.9**	88.3
	1,240.1	600.6

The average credit period taken on invoicing of leisure travel services is nine days (2006: seven days). No interest is charged on the receivables. The credit risk in respect of direct receivables from customers is limited as payment is required in full before the services are provided. In the case of travel services sold by third-party agents, the credit risk depends on the creditworthiness of those third parties, but this risk is also limited because of the relatively short period of credit.

Deposits and prepayments include amounts paid in advance to suppliers of hotel and other services in order to guarantee the provision of those supplies and historically have covered periods from one to 36 months in advance. The Group's current policy is that deposits and prepayments will normally only be made for periods of up to 12 months in advance. There is a credit risk in respect of the continued operation of those suppliers during those periods. Deposits and prepayments also include €78.4 million (2006: €40.1 million) of deposits on aircraft lease arrangements which are primarily attributable to the UK Airline.

Securities include money market securities amounting to €5.5 million (2006: €5.2 million) purchased as collateral against liabilities arising from part-time retirement contracts at Thomas Cook AG.

Current asset securities of €366.7 million (2006: €72.7 million) include €292.3 million (2006: nil) in relation to a managed investment fund established to optimise the utilisation of the Group's surplus liquidity. The fund is classified as held-for-trading investments and includes corporate and government bonds (€239.4 million), quoted (€10.2 million) and unquoted (€37.6 million) securities and other assets (€5.1 million). Securities also include money market deposits with a maturity of greater than three months of €74.4 million (2006: €72.7 million) which are also classified as held-for-trading investments.

Loans include advances of €2.6 million (2006: €2.6 million) to two hotel companies in which the Group has a participating interest. These loans are interest bearing at rates based on Euribor and are unsecured.

The amounts presented in the balance sheet are net of allowances for doubtful receivables of €73.2 million (2006: €54.1 million). 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.

Trade and other receivables are not subject to restrictions on title. The Directors consider that the carrying amount of trade and other receivables approximates their fair values.

21. CASH AND CASH EQUIVALENTS

	2007 €m	2006 €m
Cash at bank and in hand	**798.8**	735.7
Term deposits with a maturity of less than three months	**94.0**	0.3
	892.8	736.0

Included within the above balances is an amount of €85.6 million (2006: nil) held within escrow accounts in the United States and Canada in respect of local regulatory requirements. Also included within the above balances is an amount of €81.1 million (2006: nil) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company. These balances are considered to be restricted.

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

At the balance sheet date, surplus cash was placed on deposit at interest rates of up to 5.8 per cent per annum (2006: up to 4.87 per cent).

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

22. TRADE AND OTHER PAYABLES

	2007 €m	2006 €m
Current liabilities		
Trade payables	**967.6**	558.6
Amounts owed to associated undertakings and participations	**8.7**	7.0
Amounts owed to parent undertaking	**2.7**	31.9
Social security and other taxes	**113.2**	60.9
Accruals and deferred income	**842.7**	470.6
Other payables	**111.2**	79.7
	2,046.1	1,208.7
Non-current liabilities		
Accruals and deferred income	**56.6**	64.4
Other payables	**121.3**	22.3
	177.9	86.7

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

The average credit period taken for trade purchases is 34 days (2006: 33 days).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. BORROWINGS

	2007 €m	2006 €m
Short-term borrowings		
Unsecured bank loans	**3.7**	3.7
Unsecured bank overdrafts	**37.8**	2.5
	41.5	6.2
Current-portion of long-term borrowings	**33.2**	11.3
	74.7	17.5

	2007 €m	2006 €m
Long-term borrowings		
Bank loans – repayable within one year	**33.2**	11.3
– repayable between two and five years	**157.6**	131.0
– repayable after five years	**29.4**	36.8
	220.2	179.1
Less: amounts due for settlement within one year shown under current liabilities	**(33.2)**	(11.3)
Amount due for settlement after one year	**187.0**	167.8

	2007 €m	2006 €m
The currency analysis of long-term borrowings is:		
US dollar	**90.1**	30.5
Euro	**128.5**	148.6
Danish krone	**1.6**	–
	220.2	179.1

The liabilities to banks primarily relate to the refinancing of purchased aircraft, administrative buildings, hotel and club complexes and expansion in the European sales markets. The useful lives of the financed items and the maturities of the respective liabilities to banks are congruent.

Bank loans with a carrying amount of €9.3 million (2006: €9.3 million) and a fair value of €9.7 million are related to non-current assets classified as held for sale and are presented in accordance with IFRS 5 (see note 28).

For the year ended 31 October 2007 the average effective borrowing rate was 4.86 per cent (2006: 4.43 per cent). Interest rates on €114.2 million (2006: €162.6 million) of borrowings are fixed at an average weighted interest rate of 4.56 per cent (2006: 4.63 per cent). Interest rates on the balance of the borrowings are floating with an average reference interest rate of 5.08 per cent (2006: 3.68 per cent).

Bank loans include €161.8 million (2006: €117.0 million) relating to the financing of aircraft included in property, plant and equipment which is secured via aircraft mortgages.

US dollar bank loans include €65.6 million relating to the financing of two aircraft owned by SPEs consolidated in the Group's financial statements in accordance with SIC 12 (see note 17). The loans are secured by a charge on those aircraft. The loans carry interest at a rate of 0.475 per cent over US six month LIBOR, fixed at six monthly intervals. The average effective interest rate for the year to 31 October 2007 approximates 6.05 per cent (2006: 5.75 per cent). The loans are repayable in instalments by the end of June 2009.

The Danish krone loan represents a mortgage loan to finance a building extension. The loan was taken out for a period of 15 years in August 2006 at a fixed rate of interest of 4.98 per cent per annum and is secured on the property in Denmark.

The Directors consider that the fair value of the Group's bank loans with a carrying value of €233.2 million was €236.4 million at 31 October 2007 (2006: carrying value €192.1 million; fair value €198.4 million). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to maturity/repayment as at the year end.

Borrowing facilities

As at 31 October 2007, the Group had undrawn committed guarantee and bonding facilities of €219.0 million (2006: €26.5 million).

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007 €m	2006 €m	**2007 €m**	2006 €m
Amounts payable under finance leases:				
Within one year	**150.4**	64.4	**116.2**	35.3
Between two and five years	**532.6**	526.3	**480.7**	458.2
After five years	**48.5**	70.3	**34.6**	54.9
	731.5	661.0	**631.5**	548.4
Less: future finance charges	**(100.0)**	(112.6)	–	–
Present value of lease obligations	**631.5**	548.4	**631.5**	548.4

Less: amount due for settlement within 12 months (shown under current liabilities)	**(116.2)**	(35.3)
Amount due for settlement after 12 months	**515.3**	513.1

	2007 €m	2006 €m
The currency analysis of amounts payable under finance leases is:		
Euro	**458.1**	517.7
US dollar	**173.4**	30.7
	631.5	548.4

Finance leases principally relate to aircraft and aircraft spares.

The average lease term at inception was 11.1 years and the average remaining lease term is 2.8 years (2006: 4 years). For the year ended 31 October 2007 the average effective borrowing rate was 5.76 per cent (2006: 5.03 per cent). Interest rates on €491.0 million of lease obligations are fixed at 5.41 per cent (2006: €548.4 million at 5.03 per cent). Interest rates on the balance of the finance 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 Group's finance lease obligations with a carrying value of €631.5 million was €652.7 million at 31 October 2007 (2006: carrying value €548.4 million; fair value €584.1 million). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to maturity/repayment as at the year end.

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

Sub-lease rentals receivable

During the year, two aircraft (2006: no 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 34.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. DERIVATIVE FINANCIAL INSTRUMENTS

A summary of the Group's policies in relation to the use of financial instruments is set out on page 75.

At the balance sheet date, total notional amounts of outstanding forward contracts and other derivative instruments that the Group has committed to are as below.

	2007 €m	2006 €m
Foreign exchange	**3,859.5**	2,087.9
Interest rate swaps	**99.1**	73.8
Total	**3,958.6**	2,161.7

	metric tonnes	metric tonnes
Fuel	**1,675,555**	1,346,218

The fair values of derivative financial instruments at 31 October 2007 were:

	Interest rate swaps €m	Currency contracts €m	Fuel contracts €m	Total €m
At 31 October 2005	(4.5)	32.5	49.0	77.0
Movement in fair value during the year	0.9	(70.0)	(31.0)	(100.1)
At 31 October 2006	(3.6)	(37.5)	18.0	(23.1)
Fair values of derivatives at acquisition (MyTravel)	–	(35.4)	(4.2)	(39.6)
Movement in fair value during the year	(2.3)	(57.0)	64.8	5.5
At 31 October 2007	(5.9)	(129.9)	78.6	(57.2)

	2007 €m	2006 €m
Non-current assets	**29.9**	11.9
Current assets	**113.7**	30.2
Current liabilities	**(168.2)**	(52.5)
Non-current liabilities	**(32.6)**	(12.7)
	(57.2)	(23.1)

The Group uses derivative instruments to hedge against significant future transactions and cash flows. The Group enters into a variety of foreign currency forward contracts, options and other financial instruments approved by the Board in the management of its exchange rate exposures. The instruments used are primarily denominated in the currencies of the Group's principal markets, predominantly euro, US dollar and sterling, and are typically established for periods of 12 to 24 months in advance of a season to which the expected cash exposures pertain.

Price hedging transactions are also undertaken in order to limit the risk of unfavourable changes in the price of fuel, which is denominated in US dollars, for up to three future seasons. At 31 October 2007, the Group had put in place hedging transactions for fuel volumes of 1,675,555 metric tonnes (2006: 1,346,218 metric tonnes) with terms running up until October 2009 at the latest. Use was primarily made of hedge combinations and crude oil price range options as hedging instruments, together with limited use of gas oil and kerosene derivatives and derivatives for hedging price differentials between the various product groups (cracks).

The Group is also subject to risks arising from interest rate movements in connection with the financing of aircraft and acquisition of investments. Floating rate medium to long-term borrowings are exposed to interest rate change risks. Interest rate swaps and cross currency swaps are designated as cash flow hedges of the interest rate and the US dollar/euro currency risk on such borrowings. Other instruments used to manage interest rate risk include forward rate agreements and caps. Interest rate currency swaps are reported within interest rate derivatives. The maturities of interest rate derivatives extend out to mid 2011 at the latest.

The floating interest rates for interest rate swaps are based on the six month Euribor.

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

	2007 €m	2006 €m
Fair value of derivatives designated and effective as cash flow hedges deferred in equity at 31 October	**(39.6)**	(41.9)

25. DERIVATIVE FINANCIAL INSTRUMENTS
continued

Management of insurance and financial risk

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. DEFERRED TAX

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

	Aircraft finance leases €m	Retirement benefit obligations €m	Fair value of financial instruments €m	Other temporary differences €m	Tax losses €m	Total €m
At 1 November 2005	52.1	124.9	(23.8)	(39.8)	96.8	210.2
Credit/(charge) to income	5.4	(2.1)	(4.7)	(6.7)	11.8	3.7
Credit to equity	–	4.7	42.0	–	–	46.7
Disposals	–	–	–	(1.2)	–	(1.2)
Exchange differences	–	–	–	0.5	–	0.5
At 31 October 2006	57.5	127.5	13.5	(47.2)	108.6	259.9
Credit/(charge) to income	(0.5)	(39.3)	0.4	22.1	(28.7)	(46.0)
Charge to equity	–	(50.3)	(11.0)	–	–	(61.3)
Acquisitions	–	2.1	–	(52.8)	204.7	154.0
Exchange differences	–	–	–	0.5	(8.8)	(8.3)
At 31 October 2007	57.0	40.0	2.9	(77.4)	275.8	298.3

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

	2007 €m	2006 €m
Deferred tax liabilities	**(120.2)**	(0.1)
Deferred tax assets	**418.5**	260.0
	298.3	259.9

At the balance sheet date, the Group had unused tax losses of €1,800.0 million (2006: €478.0 million) available for offset against future profits. Deferred tax assets have only been recognised where there is sufficient probability that there will be future taxable profits against which the assets may be recovered. No deferred tax asset has been recognised in respect of tax losses of €800.0 million (2006: €162.0 million) due to the unpredictability of future profit streams.

In addition, the Group had unused other short-term timing differences in respect of which no deferred tax asset has been recognised amounting to €67.0 million (2006: nil), also due to the unpredictability of future profit streams.

Deferred tax liabilities were offset against the corresponding deferred tax assets where both items fell within the responsibility of the same tax authority.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which no deferred tax liabilities have been recognised was €386.0 million (2006: nil). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Reductions in corporate tax rates in the UK from 30 per cent to 28 per cent, which will be effective from 1 April 2008, and in Germany from 38 per cent to 29 per cent, which will have effect from 1 November 2007, have been taken into account in determining the deferred tax balances at 31 October 2007. The effect is a reduction in the deferred tax assets in those countries, resulting in an additional tax charge in the income statement of €9.7 million.

27. PROVISIONS

	Aircraft maintenance provisions €m	Other provisions €m	Total €m
At 1 November 2006	113.4	107.7	221.1
Additional provisions in year	58.4	136.2	194.6
Unused amounts released in year	(8.4)	(20.4)	(28.8)
Unwinding of discount	–	4.3	4.3
Utilisation of provisions	(59.5)	(65.7)	(125.2)
Acquisitions	92.9	177.7	270.6
Exchange differences	(8.8)	(4.7)	(13.5)
At 31 October 2007	188.0	335.1	523.1
Included in current liabilities	72.6	192.6	265.2
Included in non-current liabilities	115.4	142.5	257.9
	188.0	335.1	523.1

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and 10 years (see note 2).

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

Provisions included in non-current liabilities are principally in respect of onerous contracts and are expected to be utilised over the term of those contracts which extend up to 10 years from the balance sheet date.

28. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2007 €m	2006 €m
Assets		
Property, plant and equipment		
Buildings	**16.1**	19.1
Financial assets		
Associated companies	**–**	4.6
Other investments	**–**	14.6
Other current assets	**–**	6.0
Deferred tax assets	**2.1**	2.9
	18.2	47.2
Liabilities		
Deferred tax liabilities	**0.4**	0.5
Borrowings of companies held for sale	**9.3**	9.3
Other liabilities of companies held for sale	**–**	4.3
	9.7	14.1

The non-current assets and liabilities held for sale in 2007 relate to land and buildings owned by Thomas Cook Nederland BV. The Group's management determined that the property was surplus to requirements in October 2006 and it has been vacated. The Group expects to complete a sale within the next 12 months at a price around the carrying value.

The other items included in 2006 have been sold in the year with the exception of Thomas Cook Vertriebs GmbH which has been withdrawn from sale and reclassified as continuing assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital €m	Share premium €m	Own shares €m	Hedging and translation reserves €m	Merger reserve €m	Retained earnings/ (deficit) €m	Attributable to equity holders of the parent €m	Minority interest €m	Total €m
At 1 November 2005	303.7	539.7	–	46.7	–	(418.8)	471.3	44.1	515.4
Total recognised income and expense for the year	–	–	–	(69.4)	–	163.6	94.2	3.1	97.3
Disposal of minority interest	–	–	–	–	–	–	–	(12.8)	(12.8)
Dividends paid	–	–	–	–	–	–	–	(1.8)	(1.8)
Net change directly in equity	–	–	–	–	–	–	–	(14.6)	(14.6)
Total movements	–	–	–	(69.4)	–	163.6	94.2	(11.5)	82.7
Balances at 31 October 2006	303.7	539.7	–	(22.7)	–	(255.2)	565.5	32.6	598.1
Total recognised income and expense for the year	–	–	–	(48.0)	–	321.1	273.1	1.4	274.5
Equity credit in respect of share-based payments	–	–	–	–	–	0.9	0.9	–	0.9
Capital increase	–	0.6	–	–	–	–	0.6	–	0.6
Issue of equity shares net of expenses	0.5	10.1	–	–	(18.5)	–	(7.9)	–	(7.9)
Reclassification to Thomas Cook Group plc	(252.8)	(540.3)	–	–	793.1	–	–	–	–
Acquisition of MyTravel	46.3	–	–	–	2,159.3	–	2,205.6	0.1	2,205.7
Acquisition of minority interests	–	–	–	–	–	–	–	(18.5)	(18.5)
Purchase of own shares	–	–	(7.3)	–	–	–	(7.3)	–	(7.3)
Dividends paid	–	–	–	–	–	–	–	(3.7)	(3.7)
Net change directly in equity	(206.0)	(529.6)	(7.3)	–	2,933.9	0.9	2,191.9	(22.1)	2,169.8
Total movements	(206.0)	(529.6)	(7.3)	(48.0)	2,933.9	322.0	2,465.0	(20.7)	2,444.3
Balances at 31 October 2007	97.7	10.1	(7.3)	(70.7)	2,933.9	66.8	3,030.5	11.9	3,042.4

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

Expenses of issue of Thomas Cook Group plc shares during the period amounted to €18.5 million and have been charged against the merger reserve.

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

30. CALLED-UP SHARE CAPITAL

	2007 €m	2006 €m
Authorised		
50,000 deferred shares of £1 each (2006: nil)	**0.1**	–
2,000,000,000 ordinary shares of €0.10 each (2006: 60,742,000 ordinary shares of €5 each)	**200.0**	303.7
Allotted, called-up and fully paid		
976,841,152 ordinary shares of €0.10 each (2006: 60,742,000 ordinary shares of €5 each)	**97.7**	303.7
Allotted, called-up and partly paid		
50,000 deferred shares of £1 each, 25p paid (2006: nil)	–	–

Thomas Cook Group plc was incorporated on 8 February 2007 and on that date issued 50,000 ordinary shares of £1 each at par which were paid up as to 25p on issue.

On 29 April 2007, the authorised share capital was increased by the creation of 2,000,000,000 ordinary shares of €0.10 each. Also on that date, the initial 50,000 ordinary shares of £1 each held by MyTravel and Arcandor were reclassified as deferred shares.

On 19 June 2007, 508,754,846 ordinary shares of €0.10 each were allotted to Arcandor on completion of the acquisition of the entire ordinary share capital of Thomas Cook AG and 463,157,278 ordinary shares were allotted in consideration for the acquisition of the entire ordinary share capital of MyTravel Group plc. A further 4,929,028 ordinary shares of €0.10 each were subsequently issued in exchange for additional shares issued by MyTravel Group plc consequent to the exercise of outstanding share options.

Contingent rights to the allotment of shares

At 31 October 2007, MyTravel Group plc had outstanding executive share options over 1,533,551 shares. On exercise of these options, an equal number of Thomas Cook Group plc ordinary shares will be issued.

At 31 October 2007, the following options to subscribe for ordinary shares of €0.10 each were outstanding:

Thomas Cook Group plc 2007 Performance Share Plan

	Subscription price per share	Number of shares
Date of grant		
12 July 2007	nil	2,869,648

The options granted under the plan will vest if performance targets for earnings per share and total shareholder return are met during the three years following the date of grant. Subject to vesting conditions, the options are exercisable up to 10 years after the date of grant.

On exercise, the awards of shares under the plan will be satisfied by purchases in the market of existing shares.

Own shares held in trust

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

The number of shares held at 31 October 2007 by Halifax EES Trustees International (Jersey) Limited was 1,670,104 (2006: nil). The cost of acquisition of these shares was €7.3 million (2006: nil) and the market value at 31 October 2007 was €7.2 million (2006: nil). Shares held by the trust have been excluded from the weighted average number of shares used in the calculation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31. HEDGING AND TRANSLATION RESERVES

	Hedging reserve €m	Available for sale investments €m	Translation reserve €m	Total €m
Balance at 1 November 2005	50.0	0.4	(3.7)	46.7
Exchange differences on translation of overseas operations	–	–	2.4	2.4
Valuation losses taken to equity	(60.4)	(0.6)	–	(61.0)
Transfer to profit or loss	(58.4)	–	–	(58.4)
Transfer to profit or loss on disposals	–	–	5.6	5.6
Tax relating to valuation losses and transfers	42.0	–	–	42.0
Balance at 31 October 2006	(26.8)	(0.2)	4.3	(22.7)
Exchange differences on translation of overseas operations	–	–	(38.6)	(38.6)
Valuation losses taken to equity	(91.3)	0.6	–	(90.7)
Transfer to profit or loss	93.6	(0.7)	(0.6)	92.3
Tax relating to valuation losses and transfers	(11.0)	–	–	(11.0)
Balance at 31 October 2007	(35.5)	(0.3)	(34.9)	(70.7)

32. NOTES TO THE CASH FLOW STATEMENT

	2007 €m	2006 €m
Profit before tax	**284.3**	219.0
Adjustments for:		
Finance income	**(109.3)**	(76.4)
Finance costs	**110.0**	101.8
Net investment income	**(2.5)**	(0.9)
Share of results of associates and joint ventures	**(2.6)**	(4.9)
Depreciation of property, plant and equipment	**126.8**	132.0
Impairment of property, plant and equipment	**4.8**	–
Amortisation of intangible assets	**27.4**	24.7
Impairment of intangible assets	**4.1**	–
Amortisation of business combination intangibles	**43.1**	–
Impairment of non-current investments	**2.3**	–
Impairment of non-current assets held for sale	**–**	8.4
Profit on disposal of businesses and property, plant and equipment	**(3.0)**	(53.4)
Profit on disposal of non-current assets held for sale	**(14.9)**	–
Profit on disposal of associates	**(52.4)**	(20.4)
Share-based payments	**0.9**	–
Other non-cash items	**(16.0)**	(39.0)
Contribution to pension scheme	**–**	(124.5)
Increase in provisions	**68.1**	25.0
Income received from other non-current investments	**1.8**	0.9
Interest received	**43.7**	35.9
Operating cash flows before movements in working capital	**516.6**	228.2
Increase in inventories	**(3.9)**	(2.1)
Decrease in receivables	**117.4**	1.4
Decrease in payables	**(348.6)**	(0.5)
Cash generated by operations	**281.5**	227.0
Income taxes paid	**(43.9)**	(44.3)
Net cash from operating activities	**237.6**	182.7

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

33. NET FUNDS

	At 1 November 2006 €m	Cash flow €m	Other non-cash changes €m	Acquisitions/ disposals €m	Exchange movements €m	At 31 October 2007 €m
Liquidity						
Cash and cash equivalents	736.0	171.7	–	–	(14.9)	892.8
Cash classified as held for sale	0.2	(0.2)	–	–	–	–
Trading securities	72.7	294.0	–	–	–	366.7
	808.9	465.5	–	–	(14.9)	1,259.5
Current debt						
Bank overdrafts	(2.5)	(35.3)	–	–	–	(37.8)
Short-term borrowings	(3.7)	–	–	–	–	(3.7)
Current portion of long-term borrowing	(11.3)	(7.5)	–	(14.4)	–	(33.2)
Borrowings classified as held for sale	(9.3)	–	–	–	–	(9.3)
Obligations under finance leases	(35.3)	(54.7)	–	(26.2)	–	(116.2)
	(62.1)	(97.5)	–	(40.6)	–	(200.2)
Non-current debt						
Long-term borrowings	(167.8)	30.0	3.6	(57.2)	4.4	(187.0)
Obligations under finance leases	(513.1)	123.0	–	(137.9)	12.7	(515.3)
	(680.9)	153.0	3.6	(195.1)	17.1	(702.3)
Total debt	(743.0)	55.5	3.6	(235.7)	17.1	(902.5)
Net funds	65.9	521.0	3.6	(235.7)	2.2	357.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	Property and other 2007 €m	**Aircraft and aircraft spares 2007 €m**	**Total 2007 €m**	Property and other 2006 €m	Aircraft and aircraft spares 2006 €m	Total 2006 €m
Within one year	**138.7**	**150.8**	**289.5**	64.5	100.6	165.1
Later than one and less than five years	**428.6**	**354.9**	**783.5**	176.2	200.8	377.0
After five years	**332.0**	**29.7**	**361.7**	99.0	4.0	103.0
	899.3	**535.4**	**1,434.7**	339.7	305.4	645.1

Operating lease payments principally relate to rentals payable for the Group's retail shop properties and for aircraft and spares used by the Group's airlines.

Shop leases are typically negotiated for an average term of five years and aircraft leases for an average term of 10 years.

The Group as lessor

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

	Property 2007 €m	**Aircraft 2007 €m**	**Total 2007 €m**	Property 2006 €m	Aircraft 2006 €m	Total 2006 €m
Within one year	**1.4**	**5.9**	**7.3**	–	–	–
Later than one and less than five years	**2.8**	**5.0**	**7.8**	–	–	–
After five years	**0.5**	**-**	**0.5**	–	–	–
	4.7	**10.9**	**15.6**	–	–	–
Rental income earned during the year was:	**0.5**	**4.6**	**5.1**	–	–	–

Certain of the Group's retail and other properties and aircraft that are not being used in the Group's businesses are sub-let on the best terms available in the market for varying periods, with an average future committed period of 3.4 years for property and 13 months for aircraft.

Two of the aircraft sub-let are held by the Group on finance leases. At 31 October 2007, these aircraft had an aggregate cost and a carrying amount of €29.3 million. There were no impairment provisions relating to these aircraft and the depreciation charge for the period was nil.

35. CONTINGENT LIABILITIES

	2007 €m	2006 €m
Contingent liabilities	**171.2**	4.1

Contingent liabilities primarily comprise counter-guarantees for bank funding and letters of credit amounting to €115.8 million (2006: €2.9 million).

In addition, they include guarantees in relation to uncommitted facilities of €32.3 million (2006: nil) and other contingent liabilities relating to structured aircraft leases of €21.7 million (2006: nil). Other items amounted to €1.4 million (2006: €1.2 million).

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

36. SHARE-BASED PAYMENTS

The Thomas Cook Group plc 2007 Performance Share Plan

The Company operates a Performance Share Plan under which Executive Directors and senior management of the Company and its subsidiaries are granted options to subscribe for ordinary shares of the Company. The options granted under the plan will vest if performance targets for earnings per share (EPS) and total shareholder return (TSR) are met during the three years following the date of grant. Subject to vesting conditions, the options are exercisable up to 10 years after the date of grant.

No options were exercisable at the beginning of the period. Options over 2,869,648 shares were granted on 12 July 2007 at an exercise price of nil and remained outstanding at 31 October 2007. At that date, none were exercisable and the remaining contractual life of the options was nine years and eight months.

The weighted average fair value of the options granted was £2.14 (€3.07) at the date of grant. The fair value of the options subject to EPS performance targets was determined by the use of a Black-Scholes model and the fair value of the options subject to TSR performance targets was determined by the use of a Monte Carlo simulation. The key inputs to the models were as follows:

	2007
Share price at date of grant	**£2.97**
Exercise price	**nil**
Expected volatility	**32%**
Expected volatility of comparator group	**13%-43%**
Expected correlation with comparator group	**14%**
Option life	**3 years**
Risk free rate	**5.7%**
Expected dividend yield	**3%**

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

The total expense recognised during the period in respect of equity-settled share-based payment transactions was €0.9 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

37. RETIREMENT BENEFIT SCHEMES

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

Unfunded defined benefit pension obligations

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

Provisions for pensions and similar obligations totalling €202.2 million (2006: €254.1 million) were attributable to the pension commitments of Condor Group (Condor Flugdienst GmbH and Condor Berlin GmbH). For employees who joined a Condor Group company prior to 1995, the total pension commitment of the pensions authority of the German federal government and regional states was adjusted and maintained in the form of a company pension scheme.

The flight crews were additionally entitled to a transitional provision for the period between the termination of their in-flight employment and the time they became eligible for a state-run or company pension. In both cases, the benefit commitment depended on the final salaries of the employees concerned prior to the termination of their in-flight employment (final salary plan).

Employees who joined a Condor Group company after 1994 participate in a company pension scheme under which the pension entitlements are based on the average salaries of those employees (average salary plan). Condor Group also has retirement obligations arising from individual commitments and transitional provisions.

In accordance with IAS 19, all these commitments are classified as unfunded defined benefit obligations and classified as such in these financial statements.

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

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

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

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

	2007 %	2006 %
Discount rate for scheme liabilities	**5.50**	4.25
Expected rate of salary increases	**2.80**	2.68
Future pension increases	**2.00**	2.68

The mortality tables 2005 G drawn up by Prof. Dr Klaus Heubeck were used as the basis for the mortality assumptions used in arriving at the present value of the pension obligations at 31 October 2007. These assume a life expectancy for members currently aged 60 of 22.35 years for men and 26.98 years for women.

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

	2007 €m	2006 €m
Current service cost	**15.1**	15.9
Past service cost	**–**	0.1
Interest cost on scheme liabilities	**11.7**	10.5
Total included in income statement	**26.8**	26.5

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

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

37. RETIREMENT BENEFIT SCHEMES
continued

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

	2007 €m	2006 €m
At beginning of year	**277.7**	268.0
Current service cost	**15.1**	15.9
Past service cost	**–**	0.1
Interest cost	**11.7**	10.5
Benefits paid	**(12.3)**	(5.2)
Settlements	**(4.8)**	(3.3)
Actuarial gains	**(62.6)**	(8.3)
Acquisitions	**8.1**	–
At the end of the year	**232.9**	277.7

Funded defined benefit pension obligations

The pension entitlements of employees of Thomas Cook UK, the Group's Dutch companies and employees in Norway are provided through funded defined benefit schemes where pension contributions are paid over to the schemes and the assets of the schemes are held separately from those of the Group in funds under the control of trustees.

Pension costs are assessed in accordance with the advice of qualified actuaries in each country. The fair value of the pension assets in each scheme at the 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.

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

	2007 %	2006 %
Discount rate for scheme liabilities	**5.70**	4.95
Inflation rate	**3.25**	2.90
Expected return on scheme assets	**7.10**	7.30
Expected rate of salary increases	**4.50**	4.15
Future pension increases	**3.25**	2.90

The Thomas Cook UK Pension Plan accounts for approximately 90 per cent of the total funded defined benefit obligations and the mortality assumptions used in arriving at the present value of those obligations at 31 October 2007 are based on a life expectancy for members currently aged 60 of 25.2 years for men and 28.3 years for women.

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

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

	2007 €m	2006 €m
Current service cost	**26.4**	26.7
Past service cost/(credit)	**0.3**	(30.4)
Gain on settlements	**(0.3)**	–
Expected return on scheme assets	**(57.4)**	(39.0)
Interest cost on scheme liabilities	**44.3**	40.5
Total included in income statement	**13.3**	(2.2)

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

The actual return on scheme assets was €72.3 million (2006: €70.9 million).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

37. RETIREMENT BENEFIT SCHEMES continued

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

	2007 €m	2006 €m
At beginning of year	**904.4**	810.8
Current service cost	**26.4**	26.7
Past service cost/(credit)	**0.3**	(30.4)
Settlements	**(0.3)**	–
Interest cost	**44.3**	40.5
Benefits paid	**(18.1)**	(13.9)
Acquisitions	**11.1**	–
Contributions paid by plan participants	**5.4**	5.6
Actuarial (gains)/losses	**(22.0)**	58.0
Exchange difference	**(21.7)**	7.1
At the end of the year	**929.8**	904.4

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

	2007 €m	2006 €m
At beginning of year	**766.6**	545.0
Expected return on scheme assets	**57.4**	39.0
Contributions from the sponsoring companies	**53.9**	148.8
Contributions paid by plan participants	**5.4**	5.6
Actuarial gains	**62.7**	31.9
Benefits paid	**(18.1)**	(13.9)
Acquisitions	**10.9**	–
Exchange difference	**(27.5)**	10.2
At the end of the year	**911.3**	766.6

During 2006, a special one-off contribution payment was made by Thomas Cook UK to the pension fund amounting to €124.5 million (£85 million) in order to offset actuarial losses. In the subsequent five years, an amount totalling £4.35 million is to be paid to the pension fund on a quarterly basis. The Group is expected to make aggregate contributions to its funded defined benefit schemes of €49.5 million during the year commencing 1 November 2007.

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

	2007 Long-term rate of return %	2007 €m	2006 Long-term rate of return %	2006 €m
Equities	**8.2**	**434.3**	8.7	384.6
Property	**6.6**	**115.5**	6.3	79.5
Fixed interest gilts	**5.6**	**220.5**	4.5	174.7
Hedge funds	**8.2**	**81.0**	–	–
Other	**8.2**	**60.0**	7.9	127.8
At 31 October		**911.3**		766.6

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.

37. RETIREMENT BENEFIT SCHEMES
continued

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

	2007 €m	2006 €m
Present value of funded defined benefit obligations	**929.8**	904.4
Fair value of scheme assets	**(911.3)**	(766.6)
Deficit on funded retirement benefit obligations	**18.5**	137.8
Present value of unfunded defined benefit obligations	**232.9**	277.7
Scheme deficits recognised in the balance sheet	**251.4**	415.5

This amount is presented as follows:		
Non-current assets	**(0.4)**	–
Current liabilities	**4.7**	4.4
Non-current liabilities	**247.1**	411.1
	251.4	415.5

The cumulative net actuarial losses recognised in the statement of recognised income and expense at 31 October 2007 were €176.5 million (2006: €323.8 million).

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

	2007 €m	2006 €m	2005 €m
Present value of defined benefit obligations	**1,162.7**	1,182.1	1,078.8
Fair value of scheme assets	**(911.3)**	(766.6)	(545.0)
Scheme deficits	**251.4**	415.5	533.8
Experience adjustments on scheme liabilities	**7.7**	(49.7)	(148.9)
Experience adjustments on scheme assets	**14.9**	31.9	36.6

Defined contribution schemes

There are a number of defined contribution schemes in the Group, 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 employees joining since April 2003.

The total charge for the year in respect of those and other defined contribution schemes, including liabilities in respect of insured benefits relating to workers' compensation arrangements, amounted to €14.8 million (2006: nil).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

38. RELATED PARTY TRANSACTIONS

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

Until 2 April 2007, Thomas Cook AG was jointly owned by Arcandor and Lufthansa and both were regarded as related parties. On 2 April 2007, Arcandor acquired Lufthansa's interest in Thomas Cook AG and on 19 June 2007 contributed Thomas Cook AG to the Thomas Cook Group plc in exchange for shares in the Company. As a result, Arcandor now controls 52 per cent of the ordinary share capital of the Company and is therefore regarded as a related party. Transactions with Arcandor for the year and the prior year and with Lufthansa up to 2 April 2007 are included in the disclosures below as transactions with the parent company.

Trading transactions

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

	Associates, joint ventures and participations*		Parent company	
	2007 €m	2006 €m	**2007 €m**	2006 €m
Sale of goods and services	**1.8**	40.1	**8.0**	43.9
Purchases of goods and services	**34.0**	29.3	**69.3**	173.3
Interest receivable	**0.1**	–	**–**	–
Interest payable	**–**	–	**0.5**	0.1
Other income	**0.3**	–	**0.8**	–
Management fees and other expenses	**–**	–	**1.6**	–
Amounts owed by related parties	**22.6**	21.4	**9.6**	4.8
Provisions against amounts owed	**(4.6)**	(6.7)	**–**	–
Amounts owed to related parties	**8.7**	7.0	**2.7**	31.9

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

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Report on pages 61 to 64.

	2007 €m	2006 €m
Short-term employee benefits	**23.7**	3.2
Post-employment benefits	**0.7**	0.2
Share-based payments	**0.3**	–
	24.7	3.4

The above amounts for 2006 relate to the Thomas Cook AG key management only. The compensation for 2007 includes the Thomas Cook AG key management for the full year and the Thomas Cook Group plc key management for the period from 19 June 2007 to 31 October 2007.

The 2007 amount includes €10.1 million related to payments made to key management from Thomas Cook AG as compensation in respect of the transactions that led to the formation of Thomas Cook Group plc.

These amounts were reimbursed by Arcandor AG.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THOMAS COOK GROUP PLC

We have audited the parent company financial statements of Thomas Cook Group plc for the year ended 31 October 2007, which comprise the Balance Sheet and the related notes 1 to 13. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Thomas Cook Group plc for the year ended 31 October 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Group Directors' Report is consistent with the parent company financial statements. The information given in the Group Directors' Report comprises the information supplied in the Chairman's Statement, the Chief Executive's Strategy Statement, the Business Review, the Financial Review and the Corporate Social Responsibility Report as cross-referenced from the 'Liability' section of the Group Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

> the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 October 2007;

> the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and

> the information given in the Group Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 January 2008

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
30 January 2008

COMPANY BALANCE SHEET

As at 31 October 2007

	Notes	2007 €m
Fixed assets		
Investments in subsidiaries	5	**4,684.7**
		4,684.7
Current assets		
Debtors falling due within one year	6	**120.2**
Cash and deposits	7	**-**
		120.2
Creditors: amounts falling due within one year	8	**(92.3)**
Net current assets		**27.9**
Total assets less current liabilities		**4,712.6**
Net assets		**4,712.6**
Equity		
Called-up share capital	9	**97.7**
Share premium account	10	**10.1**
Merger reserve	10	**4,512.6**
Profit and loss account	10	**99.5**
Investment in own shares	10	**(7.3)**
Equity shareholders' funds		**4,712.6**

These financial statements were approved by the Board of Directors on 30 January 2008.

Signed on behalf of the Board

L Heuberg
Director

Notes 1 to 13 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The financial statements are prepared under UK GAAP (United Kingdom Generally Accepted Accounting Practice) and in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below and have been applied on a consistent basis in the current period.

Basis of accounting

These financial statements have been prepared under the historical cost convention.

The Company was incorporated on 8 February 2007 as Shakespeareco plc and is registered in England and Wales (registered number 6091951). On 12 February 2007, the Company changed its name to Thomas Cook Group plc.

These are the first financial statements of Thomas Cook Group plc and therefore no comparative amounts are shown.

Income from shares in Group undertakings

These amounts represent dividends from investments. The dividends are recognised in the period in which consideration is received.

Investments in subsidiaries

Investments in subsidiaries are shown at cost less provision for impairment.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the initial period of the lease term.

Foreign currency

Transactions denominated in foreign currencies 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. Resulting exchange gains or losses are taken through the profit and loss account.

Capital instruments

Capital instruments are accounted for in accordance with the principles of FRS 26 "Financial Instruments: Measurement" and are classified as equity share capital, minority interest or debt as appropriate.

Own shares held under trust

Shares held within employee share ownership plans are dealt with in the balance sheet as a deduction from equity shareholders' funds.

2. PROFIT FOR THE YEAR

As permitted by Section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. The profit after tax of the Company amounted to €99.4 million.

The auditors' remuneration for audit services to the Company was €0.9 million.

3. STAFF COSTS

	2007 €m
Staff costs during the year were as follows:	
Wages and salaries	**7.4**
Social security costs	**0.9**
	8.3

	Number
The average number of employees of the Company during the year was:	**1**

Employees are based in the United Kingdom and Germany.

Disclosures of individual Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 61 to 64 within the Remuneration report and form part of these audited accounts.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

4. DIVIDENDS

It is proposed that a final dividend of 5 pence per share (€cents 7.17) will be paid in 2008. The cost of this dividend will be €70 million. This proposed dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

5. INVESTMENTS IN SUBSIDIARIES

	2007 €m
Cost and net book value	
Additions	4,684.7
At 31 October 2007	**4,684.7**

A list of the Company's principal subsidiary undertakings is shown in note 13 to the financial statements on pages 120 to 122.

On 19 June 2007, the Company acquired the whole of the share capital of Thomas Cook AG and MyTravel Group plc pursuant to the merger agreement dated 12 February 2007 between the Company, Arcandor (formerly KarstadtQuelle) and MyTravel. The consideration for these acquisitions was satisfied by the issue of 971,912,124 new ordinary shares of €0.10 each of the Company. The fair value of these shares was deemed to be £3.22, the closing quoted share price of MyTravel Group plc on 18 June 2007.

Directly attributable expenses of €45.8 million were incurred in connection with these acquisitions and have been capitalised.

The Company subsequently acquired a further 4,929,028 ordinary shares of MyTravel which had been issued by MyTravel pursuant to the exercise of MyTravel executive share options. The consideration was satisfied by the issue of an equal number of new ordinary shares of the Company.

6. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 €m
Amounts owed by subsidiary undertakings	107.2
Other debtors	0.5
Tax recoverable	8.9
Deposits and prepayments	3.6
	120.2

7. CASH AND DEPOSITS

	2007 €m
Cash at bank and in hand	-

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 €m
Trade creditors	-
Amounts owed to subsidiary undertakings	70.9
Accruals and deferred income	21.4
	92.3

9. CALLED-UP SHARE CAPITAL

The details of the Company's share capital are the same as those of the Group, and are disclosed in note 30 in the notes to the Group financial statements in this report.

Details of share options granted by the Company are set out in notes 30 and 36 to the Group financial statements.

Of the expense recognised in respect of share-based payments, €0.1 million related to employees of the Company.

10. RESERVES

	Share premium account €m	Merger reserve €m	Own shares €m	Profit and loss account €m
Premium on allotments during the period	10.1	–	–	–
Acquisition of Thomas Cook AG	–	2,371.8	–	–
Acquisition of MyTravel Group plc	–	2,159.3	–	–
Expenses of issue of shares	–	(18.5)	–	–
Transfer of retained profit for the year	–	–	–	99.4
Equity credit in respect of share-based payments	–	–	–	0.1
Purchase of own shares	–	–	(7.3)	–
At 31 October 2007	**10.1**	**4,512.6**	**(7.3)**	**99.5**

The merger reserve arose on the issue of shares of the Company in connection with the acquisition of the entire share capital of Thomas Cook AG and MyTravel Group plc on 19 June 2007:

	€m
Shares issued	97.2
Merger reserve	4,531.1
Cost of shares	4,628.3

The share premium arises in connection with the issue of ordinary shares of the Company following the exercise of MyTravel executive share options:

	€m
Shares issued	0.5
Merger reserve	10.1
Cost of shares	10.6

At 31 October 2007, the Company had distributable reserves of €99.5 million.

Details of the own shares held are set out in note 30 to the Group financial statements.

11. OPERATING LEASE ARRANGEMENTS

There were no operating lease costs or commitments during the period.

12. CONTINGENT LIABILITIES

At 31 October 2007, the Company had contingent liabilities in respect of counter-guarantees for bank funding and letters of credit amounting to €156.1 million.

There were, in addition, contingent liabilities in respect of guarantees of amounts owed by subsidiaries of €0.2 million.

The Company complies with all the standards relevant to consumer protection and formal requirements in respect of package tour contracts in the UK and has all the necessary licences. The customer's right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in line with legislation in the UK via guarantees provided by banks to the Civil Aviation Authority.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

13. PRINCIPAL SUBSIDIARIES AND ASSOCIATED AND JOINT VENTURE UNDERTAKINGS

At 31 October 2007 the Company's principal subsidiary and associated and joint venture undertakings were:

		Country of incorporation and operation	Proportion held by Company (%)	Proportion held by Group (%)
Direct subsidiaries				
Thomas Cook AG	Holding company	Germany	100	100
MyTravel Group plc	Holding company	England	100	100
Indirect subsidiaries				
Continental Europe				
Bucher Reisen GmbH		Germany		100
CHB AG		Switzerland		100
Dos Delfinos-Sociedade Immob. Tourist Lda.		Portugal		100
Gesellschaft fur Reise-Vetriebssysteme mbH		Germany		100
GFT Gesellschaft fur Touristic AG		Switzerland		100
Golf Novo Sancti Petri S.A.		Spain		80.75
Hotel Investment Sarigerme Turizm Ticaret L.S.		Turkey		100
Hoteles y Clubs de Vacaciones S.A.		Spain		51
Neckermann Polska BP Sp. z.o.o.		Poland		100
Neckermann Reisen d.o.o.		Slovenia		100
Neckermann Reisen s.r.o.		Czech Republic		100
Neckermann Slovakia s.r.o.		Slovakia		60
NUR Neckermann Utazas Szolgas Szolgaltato Kft		Hungary		100
Reisburo Neckermann Nederland BV		Netherlands		100
SATEE GmbH		Germany		100
Sociedad Royal Cupido S.A.		Spain		92
Societe Touristique et Hoteliere du Senegal S.A.		Senegal		100
TC Touristik GmbH		Germany		100
Thomas Cook Air Market Hungary Kft		Hungary		96.67
Thomas Cook Austria AG		Austria		100
Thomas Cook Belgium NV		Belgium		100
Thomas Cook Airlines Belgium NV		Belgium		100
Thomas Cook Destinations GmbH		Germany		100
Thomas Cook France SAS		France		100
Thomas Cook France Hoteliere Holding SARL		France		100
Thomas Cook Interservices NV		Belgium		100
Thomas Cook Nederland BV		Netherlands		100
Thomas Cook Service AG		Switzerland		100
Thomas Cook Service Centre Belgium NV		Belgium		100
Thomas Cook Retail Belgium NV		Belgium		100
Thomas Cook Vertriebs GmbH		Germany		100
Thomas Cook Voyages S.A.		France		100
T.K. Touristik GmbH		Germany		100
travel plus s.r.o.		Czech Republic		100

13. PRINCIPAL SUBSIDIARIES AND ASSOCIATED AND JOINT VENTURE UNDERTAKINGS continued

	Country of incorporation and operation	Proportion held by Company (%)	Proportion held by Group (%)
Germany Airlines			
Condor Berlin GmbH	Germany		100
Condor Flugdienst GmbH	Germany		75.1
Lufthansa Leasing GmbH & Co. Fox-Juliett OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-Kilo OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-Lima OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-Mike OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-November OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-Oscar OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-Papa OHG	Germany		100
Lufthansa Leasing GmbH & Co. Fox-Zulu OHG	Germany		100
LLG Nord GmbH & Co. Delta OHG	Germany		100
TC Delta GmbH	Germany		100
UK and Ireland			
Airtours Holidays Transport Limited	England		100
BCT Travel Group Limited	England		100
Capitol Holdings Limited	Ireland		100
Falcon Istioploiki Hellas S.A.	Greece		100
Inspirations Plc	England		100
Jeropatur-Viagens e Turismo Ltda	Portugal		100
JMCH Services Limited	England		100
MyTravel Aircraft Engineering Limited	England		100
MyTravel UK Limited	England		100
MyTravel 330 Leasing Limited	Cayman Islands		100
Neilson Active Holidays Limited	England		100
Neilson Hellas A.E.	Greece		100
Neilsen Turizm Danismanlik VE Ticaret Ltd STI	Turkey		100
O.A. Yacht Charter S.A.	Greece		95
Praznik D.O.O. ZA Turizam	Croatia		100
Resorts Mallorca Hotels International S.L.	Spain		100
Style Holidays Limited	England		100
Thomas Cook Airlines Limited	England		100
Thomas Cook Airlines UK Limited	England		100
thomascook.com Limited	England		100
Thomas Cook Retail Limited	England		100
Thomas Cook Signature Limited	England		100
Thomas Cook Tour Operations Limited	England		100
Thomas Cook UK Limited	England		100
Thomas Cook USA Travel Services Limited	England		100
Thomas Cook TV Limited	England		100
C&N UK plc	England		100
White Horse Insurance Ireland Limited	Ireland		100

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

13. PRINCIPAL SUBSIDIARIES AND ASSOCIATED AND JOINT VENTURE UNDERTAKINGS continued

	Country of incorporation and operation	Proportion held by Company (%)	Proportion held by Group (%)
Northern Europe			
Hoteles Sunwing S.A.	Spain		100
MyTravel Airways A/S	Denmark		100
MyTravel Denmark A/S	Denmark		100
MyTravel Northern Europe AB	Sweden		100
MyTravel Norway A/S	Norway		100
MyTravel Sweden AB	Sweden		100
Oy Tjareborg AB	Finland		100
Sunwing Hoteles Hellas S.A.	Greece		100
North America			
Thomas Cook Canada Inc.	Canada		100
MyTravel USA Holdings Inc.	USA		100
NALG Ireland	Ireland		100
Corporate			
Airtours Channel Islands Limited	Channel Islands		100
Airtours Finance Limited	Channel Islands		100
Airtours the Holidaymakers Limited	England		100
Blue Sea Investments Limited	England		100
Blue Sea Overseas Investments Limited	England		100
"Eurocenter" Beteiligungs-und Reisevermittlung GmbH	Germany		100
GUT Reisen GmbH	Germany		100
Sandbrook UK Investments Limited	England		100
Sandbrook Overseas Investments Limited	England		100
Parkway Limited Partnership (No. 1) L.P.	Channel Islands		100
Thomas Cook Treasury Limited	England		100
Associated companies			
Aqua Sol Hotels Limited	Cyprus		19.99
COPLAY 95 S.L.	Spain		25
Hispano Alemana de Management Hotelero S.A.	Spain		40
Hotelera Adeje, S.A.	Spain		25
Oasis Company SAE	Egypt		25.1
Viajes Iberoservice S.A.	Spain		40
Joint venture			
Thomas Cook Personal Finance Limited	England		50

SHAREHOLDER INFORMATION

Analysis of shareholders

At 31 October 2007 there were 16,868 shareholders registered.

Type	Number of holders	Shares held
Individuals	16,258	15,502,417
Life/Insurance Funds	97	95,756,596
Pension Funds	121	65,380,529
Overseas Funds	104	104,438,100
Unit/Investment Trusts	108	52,972,277
Other	142	7,679,315
Collateral/Proprietary/Market Makers	37	126,357,072
Arcandor AG	1	508,754,846
TOTAL	**16,868**	**976,841,152**

Shareholder enquiries

The Company's share register is maintained by Equiniti.

Any queries about the administration of shareholdings such as change of address, change of ownership or dividend payments should be directed to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, or through the shareholder telephone helpline on 0871 384 2154.

Shareholders are also able to access and amend details of their shareholding online, subject to passing an identity check, at the registrar's website at www.shareview.co.uk.

UK based shareholders are now offered a simple and low-cost share sale and purchase service by our registrars. This is available by telephone 0871 384 2020 (8am – 4.30pm) or via the internet at www.shareview.co.uk/dealing.

Calls to the above numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

CORPORATE ADVISORS

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UBS Limited
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London EC2M 2PP

Financial communications:

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1 More London Place
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Solicitors:

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Appendix 1

Key Performance Indicators Definitions

*Revenue for the Group and segmental analysis represents external revenue only, except in the case of the Airlines Germany segmental key performance analysis where revenue of €494.6 million (2006: €547.9 million) largely to the Continental Europe division have been included.

**Profit from operations is defined as earnings before interest and tax, and has been adjusted to exclude exceptional items and amortisation of business combination intangibles. It also excludes our share of the results of associates and joint ventures.

***The operating profit margin is the profit from operations (as defined above) divided by the external revenue, except in the case of the Airlines Germany segmental key performance analysis where total revenue has been used as the denominator to more accurately reflect the trading performance.

In the case of pro forma profit from operations, the figures reflect the underlying results for the 12 months to 31 October 2007 and the 12 months to 31 October 2006 for each of MyTravel Group plc, Thomas Cook AG and Thomas Cook Group plc and have been prepared by the Directors to illustrate the effect of the merger of Thomas Cook AG and MyTravel Group plc as if the transaction had taken place prior to 1 November 2005 (the first day of the comparative period presented).

‹Adjusted earnings per share is calculated as pro forma net profit after tax, but before exceptional items and amortisation of business combination intangibles, divided by the number of shares in issue at 31 October 2007 (also for 2006 comparative). Profit after tax has been calculated using a notional tax rate of 30 per cent.

›Adjusted dividend cover is calculated by dividing the adjusted earnings per share (see above) by the pro forma full year proposed dividend in euro (translated at the rate prevailing on 31 October 2007).

†Passengers in the case of UK, Northern Europe and North America represents the total number of passengers (in thousands) that departed on a Thomas Cook Group plc holiday in the period. It excludes customers who booked third party tour operator products through Thomas Cook retail channels. For Continental Europe passengers represents all tour operator passengers departed in the period, excluding those on which only commission is earned.

Risk passengers in UK, Northern Europe and North America represent those holidays sold where the business has financial commitment to the product (flights and accommodation) before the customer books. The analysis excludes accommodation only passengers.

Non-Risk passengers in UK, Northern Europe and North America represents those holidays sold where the business has no financial commitment to the product (flights and accommodation) before the customer books.

††Capacity for UK, Northern Europe and North America represents the total number of holidays available to sell. This is calculated by reference to committed airline seats (both in-house and third party).

In the case of Airlines Germany, capacity represents the total number of available seat kilometres (ASK). ASK is a measure of an airline's passenger carrying capacity and is calculated as available seats multiplied by distance flown.

#Average selling price for UK, Northern Europe and North America represents the average selling price (after discounts) achieved per mainstream passenger departed in the period (excluding accommodation only passengers). For Continental Europe, average selling price represents the average selling price (after discounts) achieved per passenger departed in the period.

†††For UK, Northern Europe and North America, load factor is a measure of how successful the mainstream businesses were at selling the available capacity. This is calculated by dividing the departed mainstream passengers in the period (excluding accommodation only) by the capacity in the period.

For Airlines Germany, seat load factor is a measure of how successful the airline was at selling the available capacity. This is calculated by dividing the revenue passenger kilometres (RPK) by the available seat kilometres (ASK – see capacity definition above) and is the recognised IATA definition of load factor used for airlines. RPK is a measure of the volume of passengers carried by an airline. One RPK is flown when a passenger is carried one kilometre.

##Brochure mix is defined as the number of mainstream holidays (excluding accommodation only) sold at brochure prices divided by the total number of holidays sold and is a measure of how successful a business was at selling holidays early. Holidays are generally discounted closer to departure.

‡Controlled distribution is defined as the proportion of sales generated through our in-house retail shops, call centres and websites. Internet distribution is a sub-set of controlled distribution and is defined as the proportion of sales generated through in-house websites. Both performance indicators are calculated on sales value of departed passengers in the period.

‡‡Sold seats in Airlines Germany represents the total number of one-way seats sold on aircraft (in thousands) that departed in the period.

###Yield in Airlines Germany represents the average price achieved per seat departed in the period.

Environmental statements:
The Thomas Cook Annual Report is produced by a Carbon Neutral printer with ISO 14001 and FSC certification. The covers and pages 1 to 40 of the text are printed on Consort Silk which is also FSC certified and made from a combination of ECF and TCF pulps. The remaining text pages are printed on Munken Polar which is FSC certified and made at an EMAS registered and ISO 14001 accredited mill using ECF pulps.

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