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MyTravel Group plc

Annual Report & Accounts 2004

- The results reflect the change in accounting reference date to 31 October as previously announced.
- Operating profit before exceptional items and goodwill for the 12 months to September 2004 was £8.3m (12 months to September 2003: loss of £358.3m). Operating loss before exceptional items and goodwill for the 13 months to October 2004 was £17.5m.
- Loss before tax for the 13 months to October 2004 was £190.3m (12 months to September 2003: £910.9m).
- Turnover down from £4.2bn to £3.3bn in the 12 months to September 2004, reflecting capacity cuts in the UK and Northern Europe and business disposals. Turnover was £3.5bn in the 13 months to October 2004.
- Balance sheet restructuring completed.

Current trading

- Winter season 04/05 encouraging for all divisions; bookings for summer 05 in the UK and Northern Europe at an early stage but so far encouraging, North America division not yet on sale.
- Capacity reduced significantly for both seasons in the UK to bring it into line with demand for brochure holidays.

Outlook

- Steady progress in North America and continued strong performance in Northern Europe; performance in the UK improving but much work still to be done.
- Business plan shows 2006 operating profit before exceptional items and goodwill for all divisions.
- Indian Ocean earthquake on 26 December 2004 will have some negative impact on the results of the Northern Europe division but we will take steps to minimise this.

OPERATING RESULTS*

	13 months to 31 October 2004 £m	12 months to 30 September 2004† £m	12 months to 30 September 2003 £m
UK	(85.3)	(59.0)	(325.4)
Northern Europe	48.5	46.2	(4.0)
North America	12.1	14.0	(0.1)
Group continuing operations	**(24.7)**	**1.2**	**(329.5)**
Germany	–	–	(36.1)
Group	**(24.7)**	**1.2**	**(365.6)**
Joint ventures and associates	7.2	7.1	7.3
Group and share of joint ventures and associates	**(17.5)**	**8.3**	**(358.3)**

*The operating result includes the income from joint ventures and associates and is stated before exceptional items and goodwill.
†The figures stated for the 12 month period to 30 September 2004 are management's pro forma figures which have not been audited. A summary of the unaudited pro forma results for the 12 months to 30 September 2004 is included as an appendix to the Annual Report on pages 55 to 59.

The 2004 loss before tax for the 13 months to 31 October 2004 after goodwill amortisation of £13.5m, exceptional items of £94.4m and net finance charges of £64.9m was £190.3m.

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CHAIRMAN'S STATEMENT

Michael Beckett
Chairman

With the successful completion of the Company's restructuring, trading in the new shares issued following the restructuring is expected to begin on the London Stock Exchange on 31 December 2004. The restructuring will create a stronger foundation for the business going forward. Group liabilities will be reduced by approximately £800m as a consequence of the conversion into equity of unsecured debt and facilities. Annual interest charges and other fees incurred by the Group in respect of its borrowings, which were £70.8m in the 12 months to 30 September 2004, will be reduced to a substantially lower level. The bonding required by the regulators of the Group's tour operating companies and airline will now be committed for five years. The new bonding and letter of credit facilities will provide support for new working capital facilities for the Group.

While significant progress has been made in restoring the business, further action is required to complete the turnaround. The operating results are discussed in the Operating and Financial Review. The loss before tax for the 13 months was £190.3m (12 months to 30 September 2003: £910.9m). The basic and diluted loss per share before exceptional items and goodwill for the 13 months was 17.75p (12 months to 30 September 2003: 85.96p). Due to the lack of distributable reserves, the Board is unable to pay a dividend.

Since the results were announced on 15 December 2004, a natural catastrophe has struck several countries around the Indian Ocean as a result of the tsunami on 26 December 2004. MyTravel had a total of more than 5,400 customers in the areas affected. As always, our priority is to do everything possible for the safety of our customers and staff throughout the affected areas. We made arrangements for our customers to return home, and our rescue flights carried appropriate emergency supplies to the stricken areas. However, I very much regret that there was a number of fatalities among our customers. On behalf of the Board, management and staff, I take this opportunity of extending our sincere condolences to the bereaved families. We are expressing our support for those whose lives were devastated by the earthquake by making donations to SOS Children's Villages, who will care for children who were orphaned in the disaster.

During the year there were a number of changes to the Board. Eric Sanderson, who became Chairman in February 2003, handed over the Chairmanship to me at the conclusion of the last Annual General Meeting in March 2004. Paul Walker retired as a Non-Executive Director at the conclusion of the Extraordinary General Meeting on 24 December 2004. They played a significant role in the Company's survival through an extremely difficult period, and I would like to express the Board's sincere gratitude to them.

Christer Sandahl, the Executive Director responsible for MyTravel's Northern European business since the acquisition of Scandinavian Leisure Group AB in 1994, also retired at the conclusion of the AGM in March 2004. I would like to thank him for his part in building up a successful business in Scandinavia. Finally, on 24 December 2004, we welcomed Sam Weihagen, Chief Executive, MyTravel Northern Europe, to the Board as an Executive Director.

The results for the 2004 financial period show a significant improvement over the 2003 financial year. However, there is still a lot of work to do. The Board believes, now that the restructuring is about to be completed, that there is an excellent prospect of successfully implementing the business plan which is described in Part I of the Listing Particulars for the new shares, to be published on 30 December 2004. This business plan targets industry-standard margins in the UK in 2007.

Successful completion of the restructuring will mark a watershed for MyTravel and everybody involved in your Company. It is the culmination of many months of intense activity towards achieving this objective. Peter McHugh, the Chief Executive, has given the Company outstanding leadership and he, together with his management team, has done a remarkable job in revitalising the Company. The employees of MyTravel must be thanked for all their hard work in what has been an extremely difficult period. I would also like to thank our customers, suppliers and our existing and new shareholders for their support through this time. I know I speak for everyone at MyTravel in saying that we are delighted we can now focus on building a successful and profitable business and continuing to offer attractive products to our customers.

Michael Beckett
Chairman
29 December 2004

OPERATING AND FINANCIAL REVIEW

Peter McHugh
Chief Executive

Operating review

Change of accounting reference date

During the year, we changed the accounting reference date of the Company to 31 October 2004. As a result, the accounts for 2004 constitute a 13 month period. The change gives the Company a financial year end that is aligned with the end of the summer season. In order to ensure that the commentary on the Group results has comparability to the prior year without breaching reporting guidelines, however, the turnover and operating profit before exceptional items and goodwill analysis focuses on the unaudited pro forma 12 month period to 30 September 2004 as compared to the audited 12 months to 30 September 2003.

A summary of the unaudited results for the 12 months to 30 September 2004, which have been reviewed by Deloitte & Touche LLP, is included as an appendix to the Annual Report on pages 55 to 59.

Summary of trading results

For the 12 months to September 2004, the Group recorded an operating profit before exceptional items and goodwill of £8.3m compared with a loss of £358.3m in the same period last year. For the 13 months to October 2004, the result was a loss of £17.5m. October is loss-making, however the result for the month of October 2004 shows an improvement over the prior year.

The results reflect a successful turnaround in Northern Europe and North America and the beginnings of a turnaround in the UK. Northern Europe achieved a record operating profit before exceptional items and goodwill of £46.2m in the 12 months to September 2004 (13 months to October 2004: £48.5m) compared with a loss of £4.0m in the previous year. This turnaround clearly demonstrates what can be achieved when supply and demand are brought into balance.

We also recorded a significant improvement in the results of our continuing North American operations. Operating profit before exceptional items and goodwill was £14.0m in the 12 months to September 2004 (13 months to October 2004: £12.1m), compared with a loss of £0.1m in the prior year. After adjusting for businesses sold in the first quarter, the underlying improvement year on year was £22.1m. This reflects the improved market conditions, together with a better alignment of supply and demand and the impact of cost cutting initiatives.

In the UK, the operating loss before exceptional items and goodwill fell to £59.0m in the 12 months to September 2004 (13 months to October 2004: £85.3m), compared with a loss of £325.4m in the prior year. This was a significant improvement even after adjusting for a number of one-off items. This underlying improvement was achieved through the turnaround actions taken, including reductions in capacity, cost savings, efficiency improvements and better yield management. However, there is still some way to go in returning this business to sustainable profitability which we expect to achieve through the implementation of the business plan.

Business plan

During the year, we developed and adopted a business plan with the aim of returning the UK business to sustainable profits, matching the turnarounds already achieved in Northern Europe and North America. This plan builds on the actions already taken following the strategic review and recognises the UK, Northern Europe and North America as the continuing core business. It is based on improved understanding and analysis of the dynamics of the market in which we operate, the economics of different aircraft types and accommodation guarantees, and the Group-wide profitability of different routes, resorts and individual properties.

The plan calls for continued improvement in Northern Europe and North America based on cautious growth and some further cost reduction.

Our view of the UK market is that the volume of overseas holidays is likely to grow strongly, that the package holiday market will remain a substantial market, and that customer preferences will continue to evolve. As a consequence, we decided that the UK capacity should be cut to bring the supply of holidays into balance with the demand, which was the strategy successfully employed in turning around our Northern Europe business. We have also decided that changes should be made to achieve greater flexibility and to align the product more closely to changing market requirements.

Action has already been taken to reduce capacity and to reduce the size of the UK aircraft fleet. The remaining key elements of the business plan in the UK are:

- to capitalise on recently gained flexibility in accommodation guarantees to simplify and improve the product offer and match it more closely with market demand;
- to continue to drive costs down, particularly overheads and accommodation;
- to complete the redefinition of brand propositions and focus marketing effort on delivering these propositions;
- to improve distribution by investment to increase on-line sales, revitalising the Going Places retail chain and improving call centre efficiency;
- to take advantage of the rapid growth of independent travel by consolidating and developing our specialist businesses, Bridge, Cresta and Tradewinds, and establishing new specialist businesses, such as The Cruise Store, a cruise retail business selling the products of different cruise lines by telephone, internet and Going Places travel agents; and
- to continue simplifying the UK business and improving its organisational effectiveness.

Restructuring

The Board announced on 13 October 2004 that the Company proposed to restructure its balance sheet. The Board proposed a consensual restructuring, which required agreement of the banks and other facility providers involved and of the holders of the 7% subordinated Convertible Bonds due 2007 and the shareholders. Bondholders and shareholders passed the resolutions necessary to implement the consensual restructuring on 29 December 2004 and 24 December 2004 respectively. The key points of the consensual restructuring are:

- The conversion into equity in the Company of approximately £800m of unsecured debt and facilities, including:
  - a £250m revolving credit facility;
  - US$100m US private placement notes;
  - £209m non-equity minority interest preference shares;
  - certain elements of aircraft leasing arrangements; and
  - all of the outstanding 7% subordinated Convertible Bonds due 2007.
- On implementation of the consensual restructuring:
  - new shares representing 88% of the post restructuring share capital will be issued to converting creditors;
  - new shares representing 8% of the post restructuring share capital will be issued to bondholders. Under the consensual restructuring, bondholders will also be entitled to a payment of the interest on the Bonds accrued up to (and including) 25 August 2004, such interest to be paid on the restructuring completion date. The bondholders will have no right to interest accrued after 25 August 2004;
  - existing shareholders will retain 4% of the post restructuring share capital.
- The provision at no material cost to the Group of new five year committed bonding and letter of credit facilities.

Implementation of the restructuring will create a stronger foundation for our business going forward. For example:

- liabilities of the Group will be reduced by approximately £800m;
- annual interest charges and other fees incurred by the Group in respect of its borrowings, which were £70.8m in the 12 months to September 2004, will be reduced to a significantly lower level following the restructuring;
- the bonding required for regulatory purposes by the Group's tour operating companies and airline will be committed for five years;
- the new bonding and letter of credit facilities will provide support for new working capital facilities for the Group.

A pro forma statement of consolidated net assets, prepared for illustrative purposes, showing the financial position of the Group as at 31 October 2004 if the restructuring had been implemented at that date, is set out overleaf. This shows the Group having consolidated net liabilities of £162.2m, including creditors due after one year of £164.2m on a pro forma basis. Total restructuring expenses on completion of the balance sheet restructuring are estimated to be approximately £41m.

OPERATING AND FINANCIAL REVIEW

Pro forma statement of consolidated net assets

	Group net assets at 31 October 2004 note 1 £m	Adjustments Restructuring expenses note 2 £m	Adjustments Debt conversion note 3 £m	Pro forma net assets of the Group at 31 October 2004 note 4 £m
Intangible assets – goodwill	146.2			146.2
Tangible assets	302.8			302.8
Investments	51.1			51.1
Total fixed assets	**500.1**			**500.1**
Current assets				
Stocks	6.7			6.7
Debtors	386.2			386.2
Cash and deposits	305.2	(20.5)		284.7
Current assets	**698.1**	**(20.5)**		**677.6**
Creditors: amounts falling due within one year	(1,056.6)		7.3	(1,049.3)
Net current liabilities	**(358.5)**	**(20.5)**	**7.3**	**(371.7)**
Total assets less current liabilities	**141.6**	**(20.5)**	**7.3**	**128.4**
Creditors: amounts falling due after one year				
Convertible debt	(216.4)		216.4	–
Other creditors	(677.8)		513.6	(164.2)
	(894.2)		**730.0**	**(164.2)**
Provisions for liabilities and charges	(126.4)			(126.4)
Net liabilities	**(879.0)**	**(20.5)**	**737.3**	**(162.2)**

Notes
1 The consolidated net assets of the Group at 31 October 2004 have been extracted without material adjustment from the audited balance sheet at that date.
2 Restructuring expenses represent the costs of advisory, legal, banking and accounting fees, including success fees and contractual commitments to key personnel payable on a successful restructuring, which the Group estimates will be payable in relation to the consensual restructuring proposals and the Company's alternative proposal for a scheme of arrangement which it is no longer seeking to implement but in respect of which the Company has incurred costs.
3 Debt conversion shows the impact of converting the principal and the accrued finance charges of the £250m revolving credit facility, the £209m minority interest preference shares, the $100m US private placement notes and the Bonds.
4 No account has been taken in the pro forma statement of consolidated net assets of the benefit arising as a result of the restructuring of certain of the Group's aircraft leases with debt to be converted with a face value of £64m as at 31 October 2004. The Directors do not believe that the fair value arising in respect of the benefit attributable to this restructuring can be assessed at this stage with a reasonable degree of accuracy.
5 No account has been taken of any change in the financial position of the Group, including its trading position, since 31 October 2004.

Current trading

Trading for the winter season 2004/2005 continues to be encouraging for all divisions. Bookings for the summer season 2005 in the UK and Northern Europe are at an early stage but are so far encouraging. The summer season 2005 is not yet on sale in our North America division.

In North America, we are making steady progress. Northern Europe continues to perform strongly.

We continue to see an improving performance in the UK. Capacity has been reduced significantly for both the winter and summer seasons to bring it into line with demand for brochure holidays. Bookings are ahead of last year as a percentage of available capacity for both the current winter season and the summer season 2005.

In addition, we have taken further steps to reduce our risk and to increase our operational flexibility. Our exposure to guaranteed accommodation is reducing at a faster rate than our capacity. In the UK, the number of aircraft in the fleet will fall from 33 to 24. With the departure from the fleet of the last cruise ship in May 2005, we will cease to be a cruise tour operator on a risk basis.

Approximately 65% of the Group's currency risk is now hedged. The restructuring is expected to lead to additional hedging becoming available over time. Fuel is currently unhedged, however supplements or pricing adjustments have been made in all divisions to mitigate increases in fuel prices.

Outlook

The results for this financial period presented here show a significant improvement over the prior year. However, there is still a lot of work to do, particularly in the UK. The Board believes that, following the completion of the consensual restructuring, there will be a good prospect of successfully implementing the business plan described on page 2. This business plan targets current industry-standard margins in the UK in 2007. For the year ending 31 October 2005, the business plan shows Northern Europe and North America continuing to perform well, while in the UK, business revenues are reduced by planned capacity reductions but margins are improved as the changes to the business strategy begin to achieve results.

The Indian Ocean earthquake on 26 December 2004 will have some negative impact on the results of the Northern Europe division, but we will take steps to minimise this. We do not expect the earthquake to have a material effect on our achievement of the business plan.

John Allkins
Group Finance Director

Financial review

Operating results before exceptional items and goodwill amortisation

Turnover, including our share from joint ventures, for the 13 months was £3,498.7m (12 months to September 2003: £4,225.3m). Turnover for the 12 months to September 2004 was £3,283.1m, a reduction of £942.2m. Of this reduction, £397.7m is a result of the disposal of our German operation in September 2003; £209.4m relates to the disposal of a number of US businesses at the end of 2003; and £282.7m is attributable to the UK and largely reflects the reduced capacity on sale.

The operating loss for the 13 months before exceptional items and goodwill was £17.5m (12 months to September 2003: £358.3m). For the 12 months to September 2004, the Group reported an operating profit before exceptional items and goodwill of £8.3m. This reflects a significant improvement year on year in all our segments and is discussed in more detail in the Segmental review below.

Exceptional items and goodwill amortisation

Total net exceptional costs in the 13 month period were £94.4m (12 months to September 2003: £472.7m). Of this, £67.4m has been classified as exceptional operating items and £15.6m as exceptional finance charges.

The exceptional operating items, of which £38.0m represent non-cash write-downs and provisions, include £54.1m of costs arising from the operational restructuring of a number of our businesses, mainly in the UK, and represent the costs of implementing the turnaround actions. In particular, £40.7m was incurred as a result of our decision to significantly reduce the UK aircraft fleet.

Exceptional finance charges of £15.6m represent costs incurred to 31 October 2004 on the restructuring. In addition, £4.8m of costs were incurred within operating exceptionals in respect of preparatory work relating to the proposed refinancing and restructuring.

The remaining exceptional items total £11.4m. These include net losses on disposal of fixed assets of £3.4m and losses on terminated operations of £19.0m, largely relating to the cessation of our Sun Cruises business. These have been partially offset by £11.0m of profit on the disposal of a number of businesses, mainly in the US.

A segmental analysis of all of the exceptional items is given in the Notes to the accounts.

Goodwill amortisation in the 13 months amounted to £13.5m (12 months to September 2003: £26.9m). The reduction reflects the disposal of a number of businesses over the last 18 months and the reduction in the carrying value of certain goodwill as a result of the balance sheet review.

Finance charges before exceptional items

Net finance charges before exceptional items in the 13 months were £64.9m (12 months to September 2003: £53.0m).

Included in the net finance charges for 2004 is £17.9m (12 months to September 2003: £25.5m) in respect of the Group's refinancing in 2003.

Excluding the impact of the refinancing, the increase in net finance charges largely reflects the extra month in the reporting period, lower interest receivable, and the cost of additional drawings under the revolving credit facility, together with four months of additional interest on the minority interest preference shares (MIPS) which were classified as non-equity minority interests until January 2003.

Taxation

The tax charge in the period on the loss on ordinary activities amounted to £13.0m (12 months to September 2003: credit of £2.8m). The charge reflects taxation in certain overseas businesses which cannot be relieved against UK tax losses.

The restructuring is not expected to alter the Group's position as a taxpayer on the profits of its non-UK businesses in the next financial year.

Loss per share and dividends

Basic and diluted loss per share before exceptional items and goodwill was 17.75p (12 months to September 2003: 85.96p).

The Board recommends that no final dividend should be paid. As a result, the total dividend for the period will be nil p (12 months to September 2003: nil p).

Segmental review of operating results

UK

Turnover in the 13 month period in the UK was £2,194.9m (12 months to September 2003: £2,340.5m). For the 12 months to September 2004, turnover was £2,057.8m, a reduction of £282.7m. A large proportion of this reduction is attributable to the UK charter operations where a 13% reduction in capacity on sale was partially offset by an increase in average selling prices of 5%. Turnover in our specialist businesses was also lower, largely reflecting the disposals made in 2003.

OPERATING AND FINANCIAL REVIEW

The operating loss before exceptional items and goodwill for the 13 months was £85.3m (12 months to September 2003: £325.4m). For the 12 months to 30 September 2004, the operating loss before exceptional items and goodwill was £59.0m, an improvement year on year of £266.4m. This improvement partially reflects the non-recurrence of the non-comparable items reported last year which affected the operating loss. Nevertheless, the underlying improvement in the UK is significant and highlights the steps we have taken to date to reduce both the risk and cost structure of the business.

Market conditions throughout the winter and early summer limited our ability to increase overall margins to targeted levels. Trading in the peak summer season was satisfactory and throughout the period trading benefited from the improvements in management information systems introduced in the period. We also finished the season strongly, benefiting from the capacity cuts that we had implemented.

The simplification of the UK business continued throughout the period and considerable progress has been made in reducing the fixed cost structure of the operation. This work will continue through 2005 as we seek to remove further inefficiencies.

Cost reductions in overhead areas alone in the 13 months to October 2004 are over £100m, which when added to reductions in other cost lines since 2002, means we have exceeded the targeted £150m of cost savings a year early.

Northern Europe
The trading performance in our Northern European operations was very strong during the period. Careful capacity management of both aircraft seats and hotel beds ensured that a better balance was achieved between supply and demand in both the winter and summer season. The proportion of sales at brochure rates was consequently much higher year on year, leaving significantly less product to sell at a discounted price in the lates market.

Turnover in the 13 month period in our Northern European operations was £863.9m (12 months to September 2003: £886.4m). In the 12 months to September 2004, turnover was £805.6m, down £80.8m, or 9%. Of this reduction, £40.5m is attributable to our ongoing Northern European operations (excluding Holland) and reflects 10% lower risk capacity on sale offset by increased selling prices.

Operating profit before exceptional items and goodwill in the 13 month period was £48.5m (12 months to September 2003: operating loss of £4.0m). In the 12 months to September 2004, the operating profit before exceptional items and goodwill was £46.2m, an improvement of some £50.2m year on year. This improvement reflects the margin benefits from the capacity management as well as the positive impact of headcount reductions and other cost saving initiatives.

Losses in our Dutch operations were reduced in the 12 months to September 2004 by £3.7m to £6.3m. It is our intention to sell or close this business to avoid future losses completely.

North America
We also had a very good performance in our North American operations. Turnover in the 13 month period was £404.0m (12 months to September 2003: £565.6m). In the 12 months to September 2004, turnover was £386.1m, a decrease of £179.5m, or 32%. This decrease is attributable to the disposal of a number of US businesses in the first quarter of this financial period (£209.4m), offset partially by higher sales in our ongoing Canadian operations (£37.5m).

Operating profit before exceptional items and goodwill in the 13 month period was £12.1m (12 months to September 2003: loss of £0.1m). In the 12 months to September 2004, the operating profit before exceptional items and goodwill was £14.0m, an improvement of £14.1m year on year. The underlying improvement, however, after adjusting for the impact of the businesses disposed of in the first quarter, was £22.1m. This reflects better trading in our Canadian tour operations and in Alumni Holidays where we have seen a strong recovery from the poor market conditions of the prior year. The increased capacity has been sold at improved margins and overheads have been reduced through a number of cost cutting initiatives.

Joint ventures and Associates
Joint ventures (Hotetur and Tenerife Sol) and Associates (Aqua Sol) contributed £7.2m in the 13 months to October 2004 (12 months to September 2003: £7.3m). In the 12 months to September 2004 our share of profits from these businesses was £7.1m.

Balance sheet

Net liabilities at 31 October 2004 were £879.0m compared with £672.9m restated at 30 September 2003. The increase is as a result of the net losses recorded in the period.

Cash balance and cash flow

Cash and deposits at 31 October 2004 were £305.2m compared with £254.9m at 30 September 2003. (Cash and deposits at 30 September 2004 were £331.9m).

Careful cash management has been a key focus throughout the period and will continue to be so in the future. This, together with the reduced operating loss has contributed to a cash inflow from operating activities in the period of £26.5m (12 months to September 2003: outflow of £109.4m).

Net proceeds from the disposal of non-core businesses realised £123.1m (12 months to September 2003: net outflow of £0.8m) contributing significantly to the improvement in the Group's cash position.

Net debt at 31 October 2004 was £577.2m compared with £607.3m at 30 September 2003.

International Financial Reporting Standards

The Group intends to adopt International Financial Reporting Standards (IFRS) in its accounts (and those of its subsidiaries) for the financial year ending 31 October 2006.

Work has already begun with our auditors to identify the areas that will be most affected by the introduction of IFRS. The Group has begun to align its systems to produce the necessary information to produce accounts on this basis. In 2004, resources were principally focused on preparing the Group for the balance sheet restructuring. As that process moves to a successful conclusion, increasing resources will be applied to the introduction of IFRS so that the Group is ready to proceed by the end of the new financial year.

Treasury policies

The Board has established treasury policies which are reviewed regularly to ensure they remain relevant to our business. The main financial risks faced by the Group are foreign currency, interest rate, fuel price and liquidity risk. Treasury activities are managed on a day-to-day basis by Group Treasury. The Board approves all the financial instruments used by the Group. Group Treasury reports regularly to members of the Board and is subject to periodic independent reviews and audits, both internal and external.

Foreign currency risk
The Group's transactional foreign currency exposures primarily relate to accommodation, flying and sundry costs for the seasons on sale. The Group's policy requires subsidiaries to hedge all trade-generated exposures with Group Treasury at the time of brochure launch. External hedging is put in place using forward contracts and options to the extent that external foreign exchange lines or other capabilities are available to the Group.

The Board no longer considers it appropriate to hedge the net asset position using currency foreign exchange contracts due to the cash impact of such a policy.

Interest rate risk
The Group's exposure to interest rate fluctuations on its borrowings, deposits and cruise ship, hotel and aircraft related financing is managed by using interest rate swaps and forward rate agreements. At the period end, after taking into account interest rate swaps and forward rate agreements, the proportion of the Group's gross borrowings at fixed and hedged rates was 34.5% at a blended rate of 7.3%. The gross cash position was fully floating. Details of the interest rate analysis can be seen in note 19.

Fuel price risk
As with the foreign currency transactional exposures, fuel exposures relate to flying and cruise ship costs for the seasons on sale. Group policy requires subsidiaries to hedge all fuel exposures with Group Treasury at the time of commitment. External hedging is put in place using fuel commodity swaps to the extent that external hedging lines are available from the banking market.

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. To this end, surplus funds are collected centrally and invested with Board approved counterparties, within authorised limits and with the aim of maintaining short term liquidity while maximising yield.

As detailed in note 19, 3.5% of the Group's total borrowings at the period end will mature by 31 October 2005 and 95.7% will mature in more than one year, but less than five.

Peter McHugh
Chief Executive
29 December 2004

John Allkins
Group Finance Director
29 December 2004

BOARD OF DIRECTORS

Michael Beckett (68)
Chairman

Joined the Board in March 2004 as Non-Executive Chairman. Currently Chairman of London Clubs International plc and W.B.B. Minerals Ltd. He is a former Managing Director of Consolidated Gold Fields. Non-Executive Director of Egypt Trust Limited, Foreign and Colonial General Income Growth plc, Northam Platinum Ltd (South Africa) and Orica Ltd (Australia). In the past five years he has been, but is no longer, Chairman of Oxus Gold plc, Ashanti Goldfields Company Limited and Clarksons plc and a Non-Executive Director of BPB plc, British Borneo Oil & Gas plc, Queens Moat Houses plc and Viglen Technology plc. Chairman of the Remuneration Committee and the Nominations Committee. Member of the Audit and Risk Management Committee and the Health, Safety and Environmental Committee.

Peter McHugh (57)
Chief Executive

Joined the Group in April 2000 as President and Chief Executive Officer of Travel Services International, before becoming Chief Executive Officer of the Group's North American operations. Joined the Board in November 2000 and was appointed as Chief Executive on 17 October 2002. Previously was President and Chief Operating Officer of the Holland America Line – Westours Inc. He has more than 20 years' experience in the airline industry with senior management positions in Pan Am and TWA. Member of the Health, Safety and Environmental Committee.

John Allkins (55)
Group Finance Director

Joined the Board in December 2003 as Group Finance Director. Previously with Equant NV which he joined in 1995 as Chief Financial Officer and served as one of its three-strong Management Board until 2003. Prior to that he held a number of senior finance positions with British Telecommunications including Finance Director, British Telecom International, and Director of Financial Controls Worldwide – Networks division. Fellow of the Chartered Institute of Management Accountants.

Sam Weihagen (54)
Chief Executive of MyTravel Northern Europe

Joined the Board in December 2004. Has a degree in business administration and accounting from Gothenburg University. Joined MyTravel Northern Europe in 1975, becoming Commercial Director with responsibility for purchasing and flight planning, and finally Chief Executive in 2001. Chairman of the Tour Operating Federation of Sweden.

David Allvey (59)
Non-Executive Director

Joined the Board in April 2003. Formerly Group Finance Director of Barclays Bank PLC, BAT Industries plc, Allied Zurich plc and was Chief Operating Officer of Zurich Financial Services AG. Current other Non-Executive roles include Britannic Group plc, Costain Group plc, Intertek Group plc and William Hill Group plc. A member of the UK Accounting Standards Board from 1993 to 2003. Chairman of the Audit and Risk Management Committee. Member of the Health, Safety and Environmental Committee.

Roger Burnell (54)
Non-Executive Director

Joined the Board in April 2003. Has substantial experience of the vertically integrated tour operating industry, having spent 25 years with Thomson Travel Group rising to Acting Chief Executive Officer in 1999. Previously Managing Director of its Horizon Holidays, Lunn Poly and Britannia Airways businesses. Currently Chairman of HomeForm Group Ltd. Member of the Remuneration Committee and Chairman of the Health, Safety and Environmental Committee.

Sir Tom Farmer CBE (64)
Non-Executive Director

Joined the Board in 1994. Founder of Kwik-Fit. Chairman of the Board of Trustees of the Duke of Edinburgh Award and patron of numerous charities. Member of the Audit and Risk Management Committee, the Nominations Committee and the Remuneration Committee.

Dr Angus Porter (47)
Non-Executive Director

Joined the Board in 2002. Executive Director, Customer Propositions, Abbey National plc. Previously Managing Director of Consumer Division, BT Retail. Has held senior executive positions in the Mars confectionery group, being Sales Director from 1993 to 1994, Marketing Director from 1995 to 1998 and European General Manager, Sugar Confectionery from 1998 to 1999. Member of the Board of Business in the Community. Member of the Remuneration Committee and the Nominations Committee.

DIRECTORS' REPORT

The Directors present their report together with the accounts and independent auditors' report for the 13 month period ended 31 October 2004.

Principal activities

MyTravel Group plc continues to operate within the leisure travel industry with businesses in the United Kingdom, Ireland, mainland Europe, Scandinavia, Canada and the United States of America.

Review of developments

A comprehensive review of current and future developments is given in the Chairman's statement on page 1 and the Operating and Financial Review on pages 2 to 7.

Results and dividends

The loss for the period after tax and minority interests amounted to £203.6m (year ended 30 September 2003: loss of £913.2m). The Directors do not recommend a final dividend in respect of the current financial period (2003: nil p). No interim dividend was paid (2003: nil p).

Directors

The Directors in office at the end of the period and their interests in the shares of the Company are listed on page 21.

On 4 December 2003, Duncan Wilson resigned from the Board. On 11 December 2003, John Allkins was appointed as Group Finance Director. On 22 March 2004, Eric Sanderson and Christer Sandahl resigned from the Board, and Michael Beckett was appointed to the Board and as Chairman. On 16 June 2004, Philip Jansen resigned from the Board. On 24 December 2004, Sam Weihagen, Chief Executive, MyTravel Northern Europe was appointed to the Board and Paul Walker resigned from the Board.

During the period, save as referred to in the Remuneration report on pages 16 to 21 and note 30, no Director is or was materially interested in any contract of significance to which the Company or any of its subsidiary undertakings is or was a party.

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.

The number of days' credit taken by the Company for trade purchases at 31 October 2004 was 21 days (2003: 25 days).

Corporate social responsibility

As part of our ongoing commitment to make a positive impact on society and minimise the effect on the environment of the Group's operations, the Group continues to review its corporate social responsibility programmes.

Workplace

The Group recognises that its ability to deliver its business objectives is dependent on the effective leadership of its people in the workplace. We aim to ensure that our employees' talents are fully utilised, that their potential is recognised and developed and that opportunities for existing and potential employees are filled solely on the grounds of ability.

In common with all commercial organisations, the Group has a duty to provide a working environment that is not only safe but is also appropriate for the effective discharge of duties. In recognition of this obligation to employees, customers and others, the Board has established a Health, Safety and Environmental Committee, the details of which are set out on page 14. However, we recognise that the scope and nature of our operations places a large number of employees in potentially hazardous situations (particularly in the current political climate) and in response to this the Group has established a Security Measures Committee to undertake ongoing reviews of our exposures and the adequacy of arrangements in place to mitigate them.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed of matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and through employee newsletters and regular news bulletins.

The Group has established a Special Negotiating Body for the purposes of establishing a European Works Council (EWC) in accordance with EC Directive N094/95/EC. Negotiations have been concluded and it is anticipated that an EWC Agreement for a three year term will be in place early in 2005. The first Employee Representatives will be put in place thereafter and two EWC meetings will be convened in 2005 following the half year and full year results.

An employee share scheme was first introduced during 1993 and further offers of shares under the employee share scheme approved at the 1999 Annual General Meeting were made to eligible employees in March 1999, February 2000, May 2001 and May 2002 and were taken up by 38%, 35%, 16% and 24% of eligible employees respectively. The scheme is open to all eligible employees within the UK. Under the terms of the scheme, the Directors may offer options to purchase shares in the Company to employees who enter into an Inland Revenue approved save as you earn savings contract. No invitations under these schemes were issued in the 13 month period ended 31 October 2004.

Charities and community

Bearing in mind the Group's financial performance, charitable support has been significantly reduced during the period, and donations have been restricted to honouring pre-existing commitments. The Group made charitable donations of £5,000 in the 13 month period to 31 October 2004.

In addition to providing resources to assist in community programmes, the Group provides further support by way of charitable donations, either in cash or gifts in kind. The Group has established a UK charitable trust (The MyTravel Group Charitable Trust). The trust considers applications for charitable support from UK individuals and organisations and, according to an assessment of the merits of each application, determines whether it is appropriate to support particular causes or projects. The Trustees have agreed to conduct a regular review of the principles used to assess individual applications for charitable support to ensure that they are consistent with the Group's objectives. Currently the Trustees have determined that they will look more favourably on support for cases or projects aimed at assisting children, families and health related issues. Arrangements for other charitable support are dealt with locally by management of the relevant business unit.

All requests for charitable support should, in the first instance, be addressed to The MyTravel Group Charitable Trust at 80 Croydon Road, Elmers End, Beckenham, Kent BR3 4DE.

Environment

The Board and executive management recognise that the scope, nature and scale of the Group's operations have a direct effect on the environment and we are committed to offering our products and services through a framework of controls, systems and procedures which seeks to minimise negative impacts. The Health, Safety and Environmental Committee referred to on page 14 supervises and monitors this framework of controls, systems and procedures.

The Group is in the business of responsible leisure travel. In the UK, for example, its UK businesses are members of the Travel Foundation Industry Unit and work with other major tour operators to develop a consistent approach.

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.

Substantial shareholdings

At 29 December 2004, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company.

	Number of shares held	% of issued share capital
Crossland Family Limited	50,000,000	9.2
Optursa Management SL	30,110,197	5.5
British Coal Staff Superannuation Scheme	16,486,815	3.0
Mineworkers' Pension Scheme	16,486,815	3.0

Corporate Governance

Details of compliance with our Corporate Governance responsibilities are included on pages 12 to 15.

Annual General Meeting

The notice convening the Annual General Meeting of the Company to be held in March 2005 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the meeting.

Auditors

The Directors will place a resolution before the Annual General Meeting to reappoint Deloitte & Touche LLP as auditors for the ensuing year.

By order of the Board
G J McMahon
Secretary
29 December 2004

Registered office

Parkway One
Parkway Business Centre
300 Princess Road
Manchester M14 7QU

DIRECTORS' RESPONSIBILITIES

Accounts, including adoption of going concern basis

UK company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

After making 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 accounts.

In preparing the accounts, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed.

Other matters

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CORPORATE GOVERNANCE

MyTravel Group continues its commitment to operate the highest standards of corporate governance.

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 and employees.

As at 29 December 2004, the Board comprised three Executive and five Non-Executive Directors. Details of the Directors are included on pages 8 and 9. 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.

The Group is currently implementing a performance evaluation process for its Board, Committees and individual Directors. This is being developed by the Group Company Secretary in conjunction with the human resources department to tie in with the evaluation procedures already under development for other staff within the MyTravel Group of companies.

The roles of Chairman and Chief Executive are distinct. Peter McHugh is Chief Executive. With effect from 22 March 2004, Michael Beckett replaced Eric Sanderson as Chairman. The Chairman's other significant commitments are set out in his biography on page 8.

The Board considers that all of the Non-Executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Board has reviewed the current roles of the Chairman and the Non-Executive Directors and does not consider that it is currently appropriate to appoint a senior independent Director. Where contact through the normal channels does not satisfy investors' concerns, and an investor feels that contact with a relevant Non-Executive Director will be of benefit, then contact will be arranged as appropriate in the circumstances.

The Board meets a minimum of ten times a year at scheduled times and otherwise on an ad hoc basis as required to consider strategic proposals; review financial performance against budgets; review operational performance against plans; and consider other matters reserved for the Board. There is a procedure in place whereby the Directors are able to take professional advice at the Company's expense.

The Board met 20 times during the financial period. Attendance by individual Directors was as follows:

Name	Number of meetings attended
Michael Beckett (appointed 22 March 2004)	13
Peter McHugh	20
John Allkins (appointed 11 December 2003)	15
David Allvey	18
Roger Burnell	16
Sir Tom Farmer	16
Dr Angus Porter	17
Philip Jansen (resigned 16 June 2004)	11
Christer Sandahl (resigned 22 March 2004)	6
Duncan Wilson (resigned 4 December 2003)	2
Eric Sanderson (resigned 22 March 2004)	6
Paul Walker (resigned 24 December 2004)	10

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, including private investors, have an opportunity to question the Board at the Annual General Meeting.

A review of the performance and financial position of the key operations is provided in the Operating and Financial Review on pages 2 to 7. The Board uses these reports to present a balanced and understandable assessment of the Group's position and prospects.

Sub-committees of the Board

The Board has established four standing sub-committees to assist in the discharge of corporate governance responsibilities. These are as follows:

Nominations Committee
Michael Beckett (Chairman)
Sir Tom Farmer
Dr Angus Porter

This Committee meets not less than once a year, and on an ad hoc basis as required, to make recommendations in relation to all new appointments to the Board and in respect of the Board's composition and balance.

The Committee met once during the financial period. The attendees were Sir Tom Farmer, Dr Angus Porter and Eric Sanderson. No external agency or advertising media were used in connection with the appointment of Mr Beckett. Egon Zehnder was appointed to assist in the recruitment of Mr Allkins.

Remuneration Committee
Michael Beckett (Chairman)
Roger Burnell
Sir Tom Farmer
Dr Angus Porter

This Committee was established in compliance with, and operates within, the framework prescribed in the Combined Code. The Committee reviews the remuneration and contractual arrangements of the Executive Directors. Full details of Directors' remuneration are included in the Remuneration report on pages 16 to 21.

The Committee met three times during the period. Attendance of individual Directors was as follows:

Name	Number of meetings attended
Roger Burnell	3
Sir Tom Farmer	3
Dr Angus Porter	3
Eric Sanderson (resigned 22 March 2004)	2
Paul Walker (resigned 24 December 2004)	1

Audit and Risk Management Committee
David Allvey (Chairman)
Michael Beckett
Sir Tom Farmer

The role of the Audit and Risk Management Committee is to consider the appointment of the auditors, audit fees, the scope of audit work and any resultant findings; to keep under review the scope of non-audit services provided by the auditors and to ensure that the provision of non-audit services does not impair the auditors' independence or objectivity; to review the scope, remit and findings of the Internal Audit function; to review the accounting policies used in the preparation of the Group's accounts; to review and monitor the Group's risk management strategy; and to review and monitor the effectiveness of the system of internal control.

The Committee met four times during the financial period. Attendance of individual Directors was as follows:

Name	Number of meetings attended
David Allvey	4
Sir Tom Farmer	2
Eric Sanderson (resigned 22 March 2004)	3
Paul Walker (resigned 24 December 2004)	2

CORPORATE GOVERNANCE

Health, Safety and Environmental Committee
Roger Burnell (Chairman)
Michael Beckett
David Allvey
Peter McHugh

The role of the Committee is to review and supervise the development and maintenance of consistent standards for managing health, safety and environmental risks and impacts in the Group's activities; to review and oversee the development and implementation of the MyTravel Group Health, Safety and Environmental policy; and to monitor the compliance of the Group with legislation and regulation relating to health, safety and the environment in all of its areas of operation. The Committee has met once since it was established in May 2004. Attendance of individual Directors was as follows:

Name	Number of meetings attended
Roger Burnell	1
Michael Beckett	1
David Allvey	1
Peter McHugh	1

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. The responsibility for managing risk on a day to day basis through the design and operation of a risk and control infrastructure lies with the Executive Directors. The Board recognises that such systems are designed to manage and monitor rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material error or loss.

In November 2003, the Group re-established the Group Risk Management Committee which had not been operational since May 2002. This Committee, which is chaired by the Group Finance Director, is responsible for recommending risk management strategies, assessing the effectiveness of the risk management process, and assessing the effects of new risks on the corporate risk profile. The Committee reports directly to the Audit and Risk Management Committee and consists of senior members of the executive management team.

Over the past two years, the Group has gone through a significant period of change with the disposal of companies, the closure of non-performing businesses and the major re-engineering of the UK core tour operator and airline operations. As a result, the Group Risk Management Committee considered it appropriate to commission a detailed report to identify the principal risks to the business and to assess the adequacy of controls and procedures in place to mitigate the likelihood and the impact of these risks. The report has been presented to, and accepted by, the Audit and Risk Management Committee. The report will now be updated and presented to the Audit and Risk Management Committee on a rolling six monthly basis and represents a key part of the Board's ongoing review of risk management.

To support the delivery of consistent risk management best practice throughout the Group, the principal divisions in UK, North America and Scandinavia have refocused and formalised their risk management activities by formally introducing their own risk management committees. These committees are reviewing existing risk management controls against the 'best practice review' template and ensuring that all divisional risks are reflected in their reports to the Group Risk Management Committee. The results of the local reviews will comprise part of the six monthly report presented to the Audit and Risk Management Committee. The Group has therefore established an ongoing and comprehensive process for identifying, evaluating and managing the significant risks faced by the Group, which is reviewed by the Board and which accords with the guidance of the recommendations of the Turnbull report.

The Group has also formed a Group Health, Safety and Environmental Committee, chaired by Roger Burnell, a Non-Executive Director. This initiative is supported by the appointment of a Group Head of Health & Safety who will be responsible for the maintenance and review of the current position, and the development and implementation of consistent health and safety policies across the Group. The Committee works in conjunction with the Security Measures Committee.

The Board has continued to make further progress in its programme of improving the infrastructure of controls, systems and processes around the Group. In particular the following steps have taken place this period:

- On 1 April 2004, the UK business outsourced the finance and accounting function of its Business Support Services group in Rochdale to Xansa UK Limited for a seven year period.
- A substantial programme of financial process and control improvement has been undertaken as part of an ongoing initiative to enhance the Group's end to end business processes. Since 1 April 2004, this programme has been carried out in conjunction with Xansa and it will continue throughout the coming year.
- The move to an October financial year end has facilitated an improvement in accounting controls and processes as October is the end of the summer holiday season.
- The outsourced Internal Audit function has been in place for the full period and has performed controls assurance work across the whole Group. The scope and results of this work are reviewed on a regular basis by the Audit and Risk Management Committee. Extensive work has been carried out to implement the control improvement recommendations from this process.
- The budgetary control system, which was upgraded last year, has been moved to a seasonal forecasting basis. In addition, the business has prepared a detailed three year plan, again on a seasonal forecasting basis, which builds on the main conclusions of the previously reported Strategic Review. This plan was prepared with the assistance of a specialist third party and has been subject to external scrutiny. It will provide a framework for further development of the budgetary control system.

- The Group has significantly enhanced and improved its margin management tools and the flow of other relevant and reliable management information.
- As part of implementing a lower operational risk model for the Group, work has continued on the simplification of the UK business structure. The integration of the main UK trading businesses has continued.
- On 1 November 2004, the Group introduced a common accounting structure for the UK businesses which will further improve both management control and information.
- The corporate policies and procedures manual will be further developed as the Group prepares for the adoption of IFRS in 2006.

Compliance with the provisions of the Combined Code

The revised Combined Code on Corporate Governance, published by the UK Financial Reporting Council in July 2003, is applicable for periods beginning on or after 1 November 2003. Accordingly, the statement below deals with the Group's compliance with the 1998 Code ("the Hampel Code").

The Directors confirm that, for the 13 month period ended 31 October 2004, the Group complied with the provisions of the code of best practice set out in section 1 of the Combined Code on Corporate Governance as appended to the Listing Rules of the Financial Services Authority, with the following exception:

- Provision A.2.1 of the Combined Code states that the Board should appoint one of the independent Non-Executive Directors to be the senior independent Director. The Board has reviewed the current roles of the Chairman and the Non-Executive Directors and does not consider that it is currently appropriate to appoint a senior independent Director. This decision will be reviewed from time to time. Where contact through the normal channels does not satisfy investors' concerns and an investor feels that contact with a relevant Non-Executive Director will be of benefit, then contact will be arranged as appropriate in the circumstances.

Compliance with the provisions of the 2003 Code

The Directors have carried out a review of the Group's corporate governance policies and procedures in the light of the requirements of the 2003 Code. This review has indicated that the Company is in compliance with the provisions of the 2003 Code, with the exception of the matter referred to above and the additional matter noted below:

- Provision B.2.1 of the Combined Code states that the members of the Remuneration Committee should all be independent Non-Executive Directors. Michael Beckett and Sir Tom Farmer are members of the Committee. By virtue of being Chairman, Michael Beckett would no longer be regarded as being independent but was independent at the date of his appointment. By virtue of his period of tenure, Sir Tom Farmer would not generally be regarded as independent. However, he is independent of management and has no business or other relationship which could materially interfere with the exercise of his independent judgement.

The Directors have adopted a corporate governance 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 2003 Combined Code. A copy of this statement is available, on request, from the Group Company Secretary.

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.

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

As at 29 December 2004, the members of the Remuneration Committee were Michael Beckett (Non-Executive Chairman) and three other Non-Executive Directors, Roger Burnell, Sir Tom Farmer and Dr Angus Porter. Eric Sanderson resigned from the Remuneration Committee on leaving the Group on 22 March 2004. Michael Beckett was appointed to the Committee on his appointment to the Board on 22 March 2004. Paul Walker resigned as Chairman of the Committee on stepping down from the Board on 24 December 2004. Michael Beckett was appointed Chairman of the Committee from that date.

No other person has been a member of the Remuneration Committee during the period. The Committee invites such other representatives of the Group to attend meetings as it deems beneficial to assist it in consideration of matters raised. During the period these have included the Chief Executive and the Group Company Secretary.

The Committee is responsible for the determination of the remuneration policy as applied to the Executive Directors of the Company.

In performance of its duties, the Committee has obtained advice from external advisors. Deloitte & Touche LLP has provided information and advice regarding the design of proposed performance criteria for incentive arrangements and benchmarking.

Legal advice is provided by the in-house legal function and by external solicitors. In particular, advice has been sought regarding early termination of contracts and incentive arrangements.

Appointments of advisors were made through the Group Company Secretary at the request of the Remuneration Committee.

Remuneration policy

The Group's remuneration policy ensures 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. The Company operates a bonus scheme and has implemented share option and LTIP schemes to link benefits to performance. Further details of those schemes, including performance conditions, are provided below.

Each Director's entitlement is set out in the audited section of this report. The Committee takes account of the remuneration packages provided by companies within the same industry or which are of comparable size and complexity. Individual remuneration packages reflect the annual and long term performance of the Group measured against targets set by the Committee and adopted by the Board.

The remuneration of Non-Executive Directors is determined by the Board excluding the Non-Executive Directors. 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. As part of the restructuring of the Company approved by shareholders on 24 December 2004, the Company has implemented a Management Incentive Plan, details of which are set out on page 18.

The main elements of Executive Directors' remuneration are: base salary, bonus, pension rights and share option schemes.

I Base salary and benefits

Base salaries for Executive Directors are reviewed with effect from October each year. Benefits include the provision of pensions, private health insurance, prolonged disability cover, death in service benefits and a fully expensed motor vehicle.

II Bonuses

(a) Annual bonus

The annual bonus for each of the Executive Directors is calculated on the basis of an annual entitlement to a maximum bonus calculated as 100% of base salary. Bonuses have normally been paid in the December following the end of the relevant financial year in which they are earned. As a consequence of the change in the Company's year end to 31 October, bonus payments will now become payable in the January following the end of the relevant financial year.

Mr Allkins received a bonus award in respect of the period to 31 October 2004 split into three tranches of £200,000, £87,500 and £62,500. The first tranche was payable in three instalments, dependent on remaining in office on the payment date (and has been paid). The second tranche was payable on the basis of pre-determined profit targets which have lapsed. The third tranche is at the sole discretion of the Remuneration Committee.

(b) Deferred Bonus Plan
Under the terms of the MyTravel Group plc Deferred Bonus Plan, all Executive Directors are entitled to defer payment of up to 50% of their bonus, after deduction of income tax, and to require the Company to use the deferred payment in the purchase of shares to be held in trust for that Executive Director. Any such shares purchased will be matched by the purchase of an equal number of shares by the Company ("matching shares") to be held on trust for that Executive Director. The interest in the matching shares created under the trust will mature after three years, after which time all of the shares in the trust will vest in the Director, provided he remains employed by the Company.

No such arrangements are proposed in respect of the period ended 31 October 2004.

(c) Personal Incentive Plan
In connection with Mr McHugh's appointment as Chief Executive, Mr McHugh participated in a Personal Incentive Plan entered into by the Company and Mr McHugh on 13 December 2002. Under the Plan, Mr McHugh would have become entitled to the payment of certain cash sums dependent upon the upward movement of the share price of the Company during the two year duration of the Plan. Mr McHugh and the Group have agreed that the Personal Incentive Plan be terminated by mutual agreement. In substitution for entitlements under that Plan, Mr McHugh has been awarded a bonus which will become payable if the Board resolves that the restructuring of the Company's balance sheet has been satisfactorily concluded. The bonus is of an amount of £2,000,000 payable as to £1,500,000 following the Board resolving that the restructuring has been satisfactorily concluded and, as to the balance, on publication of the results for the Group for the financial year ending 31 October 2005.

In connection with his employment as Group Finance Director in December 2003, the Company undertook to put in place arrangements for the award to Mr Allkins of a bonus payable on the attainment of performance conditions relating to the re-shaping of the Group's consolidated balance sheet in accordance with the Board's directions. In satisfaction of this obligation to Mr Allkins, Mr Allkins has been awarded a bonus which will become payable if the Board resolves that the restructuring of the Company's balance sheet has been satisfactorily concluded. The bonus is of an amount of £500,000 payable as to £375,000 following the Board resolving that the restructuring has been satisfactorily concluded, and, as to the balance, on the publication of the results for the Group for the financial year ending 31 October 2005.

III Pension rights
The Group contributes each year into a pension scheme or similar arrangement for each of Mr McHugh and Mr Allkins an amount equivalent to 25% of their annual salary.

With regard to Mr Weihagen, the Group pays a premium to ensure he receives a pension benefit of 70% of his basic salary from 60-64 years of age and 30% of his basic salary from 65 years of age. Should Mr Weihagen leave MyTravel Northern Europe AB before the age of 60, the Group will cease to pay the premiums but Mr Weihagen will have the right to a pension corresponding to what by then is accumulated funds (possible interest included).

IV Share option schemes
(a) MyTravel Group plc savings-related share option scheme
The Company operates a savings-related share option scheme (SAYE scheme) which provides a long term savings and investment opportunity for employees. Directors may participate on equal terms with other employees.

The MyTravel Group plc 1999 SAYE scheme was adopted by shareholders on 11 February 1999 and is open to all UK employees who have been with the Group for a qualifying period fixed by the Board. Eligible UK employees with at least six months' service were invited in March 1999, February 2000, May 2001 and May 2002 either to apply for the grant of options normally exercisable between three years and three years and six months after the commencement of the relevant savings contract or to apply for the grant of options normally exercisable between five years and five years and six months from such commencement. No invitations were made under this scheme in the period ended 31 October 2004.

(b) MyTravel Group plc 1999 executive share option scheme
The MyTravel Group plc 1999 executive share option scheme was adopted at the Company's Annual General Meeting held on 11 February 1999 and comprises two parts: the MyTravel Group plc company share option plan which has been approved by the Inland Revenue, and the MyTravel Group plc unapproved discretionary share option scheme 1999. All employees, subject to selection by either the Remuneration Committee or the Board, are entitled to participate in the scheme. The Remuneration Committee operates the scheme as regards options granted or to be granted to Executive Directors of MyTravel Group plc, in consultation with the Chairman or Chief Executive as appropriate.

REMUNERATION REPORT

The right to exercise options is, or will be, subject to one or more conditions linked to sustained and significant improvements in the performance of MyTravel Group plc which have been, or will be, imposed at the date of grant. At least one condition must link the right to exercise an option to the financial performance of the Company over a fixed period of not less than three consecutive financial years. The exercise condition may provide that options shall become exercisable in respect of a given number or proportion of the shares underlying the option, according to whether, and the extent to which, the exercise condition is satisfied. This period commences no earlier than the financial year in which an option is granted and no later than the following financial year. Options will lapse, to the extent that an exercise condition is not satisfied, by the end of the period. Options must be exercised no later than six years from the date of grant.

Options are granted at an option price which must be not less than the average of the mid-market price as derived from the Official List for the three dealing days immediately preceding the date of grant. No options were granted in the period ended 31 October 2004.

(c) The Travel Services International, LLC. long term incentive share plan
This plan was adopted by resolutions of the Boards of MyTravel Group plc, Travel Services International, Inc. now Travel Services International, LLC (TSI) and Mourant & Co Trustees Limited on 1 December 2000. Under the terms of the plan, Mourant & Co Trustees Limited granted on 1 December 2000 to employees of TSI, options to acquire shares in the Company at an option price of 210.25p per share. Exercises of these options will be satisfied by the use of shares held by the MyTravel Group No.2 Employee Benefit Trust. The right to exercise options granted under the plan is subject to the fulfilment of performance conditions based on the growth in the earnings of TSI and certain of its trading divisions over the financial year during which the options were granted. Taking into account the performance of TSI and its divisions over the relevant performance period, 18.68% of the options granted have lapsed and cease to be exercisable. The vesting of the balance is subject to the rules of the plan, including the condition that participants remain employees of the Group over a defined period.

No Director is a participant in this plan and no further options will be awarded under it.

(d) The MyTravel Group plc Long Term Incentive Plan 2002
The MyTravel Group plc Long Term Incentive Plan was adopted on 7 February 2002 by the Board of the Company pursuant to the authority of an ordinary resolution of MyTravel Group plc passed on 7 February 2002. Under the rules of the scheme, employees of the Group may be awarded options to acquire shares in the Company at no cost, subject to the Company achieving performance conditions. The performance conditions applying to awards are to be linked to sustained and significant improvement in the performance of MyTravel Group plc over a fixed period of not less than three consecutive years.

The vesting of the award to Mr McHugh made on 7 February 2002 was dependent upon the earnings per share (EPS) increase over the period 1 October 2001 to 31 October 2004. Following publication of the results of the Group for the 13 month period to 31 October 2004 this award will lapse.

The options outstanding under the above share option schemes are all at exercise prices significantly in excess of the current market value of the MyTravel Group plc ordinary shares. It is expected that the majority of options under the MyTravel Group plc 1999 executive share option scheme and all remaining awards under the MyTravel Group plc long term incentive plan will lapse following the publication of the results for the financial period ended 31 October 2004.

(e) Management Incentive Plan
On 24 December 2004, shareholders approved a share option scheme (the "Management Incentive Plan") to incentivise the Group's senior management to achieve the business plan objective of increasing the profitability of the Group throughout its divisions and in its head office functions and to retain the senior management responsible for the delivery of the business plan. The Management Incentive Plan was adopted by the Board on 29 December 2004.

Participants in the Management Incentive Plan will be selected by the Remuneration Committee. Participants will be limited to senior employees and Directors of the Group (initially intended to be approximately 50 individuals) who will not reach their anticipated retirement date within six months of the date of grant.

The Company will grant options to participants in the Management Incentive Plan which will entitle the holder to acquire A ordinary shares in the Company. Options will be personal to the participant and may not be transferred. No payment will be required for the grant of an option.

Options shall be granted at an exercise price of not less than the market value of the A ordinary shares calculated over a period of up to five business days immediately preceding the date of grant.

The Management Incentive Plan will be subject to the limit that the aggregate nominal amount of A ordinary shares in respect of which options may be granted under the Management Incentive Plan may not exceed 5.6% of the issued share capital of the Company at the time the grants are made.

All options will be classified as either a series 1 award or a series 2 award. Series 1 awards (which shall not exceed 25% of the total awards to a participant) shall vest provided a participant continues in employment with a Group company as to 33.3% on or after the second anniversary of grant, as to 33.3% on or after the third anniversary of grant and as to 33.4% on or after the fourth anniversary of the grant.

Series 2 awards shall vest on the Company's market capitalisation attaining, for a continuous period of 30 days, thresholds set by the Remuneration Committee.

V Service contracts

Each of the Executive Directors has a service contract with the Company. The date of the service agreements and their notice periods for each Executive Director at 31 October 2004 and those who served during the period are set out below:

	Date of agreement	Notice period (months)
Current Directors		
P T McHugh	13 December 2002	12
J S Allkins	10 December 2003	12*
Past Directors		
P E R Jansen	19 July 2002	24
B C Sandahl	15 March 1995	12
D C Wilson	8 January 2002	24

*The notice period for Mr Allkins is six months from Mr Allkins to the Company for the first two years of the agreement and 12 months thereafter. The notice period from the Company to Mr Allkins is 12 months throughout the term of the agreement.

The Executive Directors' service contracts 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.

Each of the Non-Executive Directors of MyTravel Group plc has been appointed pursuant to a letter of appointment. Mr Beckett's appointment continues unless and until terminated for cause or by giving 90 days notice. Mr Allvey's letter of appointment expires on 11 April 2006 unless terminated earlier for cause or on six months notice. Mr Burnell's letter of appointment expires on 6 April 2006 unless terminated earlier for cause or on six months notice. Dr Porter's letter of appointment expires on 31 March 2005, or, if sooner, the 2005 Annual General Meeting of the Company unless terminated earlier for cause or on six months notice. Sir Tom Farmer's letter of appointment expires on 19 March 2006 unless terminated earlier for cause or on six months notice.

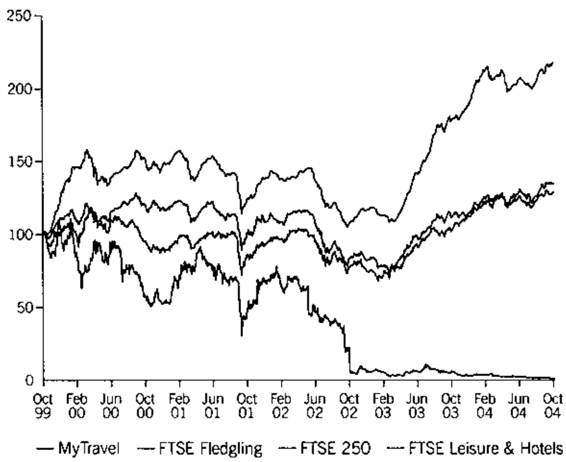
Notice periods are negotiated on an individual basis but are usually 12 months from either party in the case of Executive Directors and six months in the case of Non-Executive Directors. The Board believes that these notice periods are appropriate given the need to retain the specialist skills that the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

The principal features of the appointments of the Non-Executive Directors are set out below:

	Date of agreement	Notice period (months unless otherwise stated)
Current Directors		
M E Beckett	4 March 2004	90 days
D P Allvey	11 April 2003	6
R D Burnell	11 April 2003	6
Sir Tom Farmer	20 March 2003	6
Dr A Porter	8 January 2002	6
Past Directors		
E F Sanderson	13 September 2002	12
P A Walker	13 December 2000	6

Performance graph

The graph below shows the total shareholder return for holders of MyTravel Group plc 10p ordinary shares for the latest five financial periods measured against the FTSE 250 Index, FTSE Fledgling Index and the FTSE Leisure & Hotel Index. These indices were chosen as comparators because the Company was a constituent of the FTSE 250 for part of the period and the FTSE Fledgling for part of the period and the FTSE Leisure & Hotel Index throughout the period. 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.



REMUNERATION REPORT

B Information subject to audit

Remuneration in respect of Directors was as follows:

	Annual base salary October 2004 £000	Salary and fees £000	Bonus payments £000	Compensation for loss of office £000	Other payments** £000	Benefits £000	Total 2004 £000	Total 2003 £000	Pension contributions‡ 2004 £000	Pension contributions‡ 2003 £000
Executive										
P T McHugh#	535	579	–	–	–	285	864	645	315	264
J S Allkins (appointed 11 December 2003)	350	312	200	–	–	21	533	–	78	–
P E R Jansen (resigned 16 June 2004)	420	327	75	–	271	50	723	502	115	105
B C Sandahl (resigned 22 March 2004)	350	275	–	–	–	4	279	364	150	103
D C Wilson (resigned 4 December 2003)	380	66	–	385	203	6	660	393	16	95
		1,559	275	385	474	366	3,059	1,904	674	567
Non-Executive										
M E Beckett, Chairman (appointed 22 March 2004)	200	123	–	–	–	–	123	–	–	–
D P Allvey	43	47	–	–	–	–	47	20	–	–
R Burnell*	36	39	–	–	–	–	39	17	–	–
Sir Tom Farmer	18	20	–	–	–	–	20	18	–	–
Dr A Porter	18	20	–	–	–	–	20	19	–	–
E F Sanderson (resigned 22 March 2004)	240	115	–	264	–	7	386	222	–	–
P A Walker (resigned 24 December 2004)	36	39	–	–	–	–	39	36	–	–
		403	–	264	–	7	674	332	–	–
Total emoluments		1,962	275	649	474	373	3,733	2,236	674	567

The figures shown above for 2004 represent the 13 month period from 1 October 2003 to 31 October 2004. The figures for 2003 represent the 12 month period from 1 October 2002 to 30 September 2003.

#Mr McHugh's benefits and pension contributions include £85,519 and £69,709 respectively in relation to prior year tax gross ups under the terms of the tax neutrality clause in Mr McHugh's service contract.

‡These amounts include payments made or amounts accrued in respect of the contributions under the funded unapproved retirement benefit scheme for Mr Jansen, together with a payment in 2003 for £135,000 received by Mr McHugh following the closing of the deferred pension plan operated by Travel Services International, Inc. on his behalf.

*Pursuant to an agreement dated 7 May 2003 between the Company and Dragonfly, a partnership, the partners of which are Roger Burnell and Susan Burnell, the Company pays to Dragonfly £18,000 per annum in order to engage the services of Mr Burnell to provide additional consulting and advisory services to the Company. These fees are included in the table above.

**Other amounts paid in connection with the termination of qualifying services.

Included in the above table are the taxable benefits related to the matters set out below:

The Company has agreed with Mr McHugh, who is not a UK national, to (1) arrange for a tax reconciliation of his remuneration to be made each year to ensure that he will not be adversely affected by UK taxes compared to US taxes under the terms of the tax neutrality clause in Mr McHugh's service contract, (2) pay part of the cost of his UK accommodation, and (3) pay for travel between the UK and the USA for Mr McHugh and his wife.

The Group provided Mr Sandahl with a car and reimbursed the expenses of all running costs associated with the car. Mr Jansen received a car allowance of £1,685 per calendar month.

Mr McHugh and Mr Allkins are each entitled to a fully expensed motor car.

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).

Mr McHugh receives a product review allowance of £25,000. Mr Jansen, Mr Sandahl and Mr Wilson received a product review allowance of £23,100.

Sir Tom Farmer and Dr Porter each receive, in addition to their fees, a product review allowance of £18,000. Mr Allvey receives a £7,000 product review allowance in addition to his fees. In addition to his fees, Mr Sanderson received a product review allowance of £20,000.

Following the successful implementation of the restructuring, in addition to the bonus payments set out above, Mr McHugh and Mr Allkins are expected to receive the first part of the bonus details of which are set out in part A section II(c) of this report.

Compensation for loss of office

In addition to the amounts detailed above, the following arrangements were made in respect of the Directors' entitlement under the bonus and incentive schemes set out on pages 16 to 18.

Mr Wilson's awards under the 1999 Executive Share Option Plan lapsed on the giving of notice to terminate his employment. His awards under the Long Term Incentive Plan and the Deferred Bonus Plan lapsed on the termination of his employment on 30 April 2004.

Mr Sandahl's award under the MyTravel Group plc 1999 Executive Share Option Scheme lapsed during the period. He retained 83.4% of his award under the Long Term Incentive Plan 2002 subject to the applicable performance target being met. Mr Sandahl participated in the Deferred Bonus Plan and received all of the 19,392 matching shares awarded to him under that Plan.

Mr Jansen's awards under the 1999 Executive Share Option Scheme and the Long Term Incentive Plan 2002 lapsed on the termination of his employment on 30 September 2004.

Directors' interests in shares

The interests, beneficial unless otherwise indicated, of the Directors in the shares of the Company, as shown by the register maintained under section 325 of the Companies Act 1985, at 1 October 2003 (or the date of their appointment to the Board if later) and 31 October 2004 were as follows:

	Ordinary shares 2004	Ordinary shares 2003	2002 LTIP 2004	2002 LTIP 2003	Executive 1999 scheme 2004	Executive 1999 scheme 2003	Deferred Bonus Plan* 2004	Deferred Bonus Plan* 2003
P T McHugh	9,887	9,887	101,672	101,672	–	487,684	9,887	9,887
J S Allkins (appointed 11 December 2003)	–	–	–	–	–	–	–	–
M E Beckett (appointed 22 March 2004)	150,000	–	–	–	–	–	–	–
Sir Tom Farmer	5,186,935	5,186,935	–	–	–	–	–	–
Dr A Porter	7,280	7,280	–	–	–	–	–	–
P A Walker (resigned 24 December 2004)	29,120	29,120	–	–	–	–	–	–
R D Burnell	110,785	110,785	–	–	–	–	–	–
D P Allvey	–	–	–	–	–	–	–	–

*Under the MyTravel Group plc Deferred Bonus Plan ("The Bonus Plan"), Mourant & Co Trustees Limited hold (as bare nominee for Mr McHugh) 9,887 ordinary shares as Deposited Shares pursuant to the Rules of the Bonus Plan. The Deposited Shares are included in the number of shares in which Mr McHugh has a beneficial interest above. In its capacity as Trustee of the MyTravel Group plc No.3 Employee Benefit Trust ("the No.3 EBT"), Mourant & Co Trustees Limited has made a Contingent Award (within the meaning of the Bonus Plan) to Mr McHugh in respect of 9,887 ordinary shares. The Rules of the Bonus Plan provide that the ordinary shares comprised in such Contingent Award will be transferred to Mr McHugh on the third anniversary of the date of grant of such Contingent Award, subject to the fulfilment of certain conditions including the continued employment of him in the MyTravel Group at that time.

Mr P T McHugh and Mr J S Allkins fall within the class of discretionary beneficiaries of the No.3 EBT and are therefore deemed, pursuant to the Companies Act 1985, to be interested in all of the 841,621 ordinary shares in the Company held by the No.3 EBT. Such interest is 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 MyTravel Group plc during the period.

In the period between 31 October 2004 and 29 December 2004 there were no changes in the Directors' interests referred to above, other than the award to Mr McHugh under the Deferred Bonus Plan vested and the Deposited Shares and the Contingent Award will be transferred to him.

Share options and long term incentive schemes

As at 31 October 2004 (or at the date of their resignation if earlier) and at 1 October 2003 (or at the date of their appointment if later), the undermentioned Directors, who served during the period, had outstanding the following options to acquire ordinary shares of the Company under the terms of the MyTravel Group plc 1999 executive share option scheme, the MyTravel Group plc Long Term Incentive Plan 2002 and the Deferred Bonus Plan.

		At 31 October 2004 (or date of resignation)	Lapsed in period	Exercised in period	Granted in period	At 1 October 2003	Exercise price	Date from which exercisable	Expiry date
P T McHugh	1999 executive scheme:								
	Unapproved options	–	487,684	–	–	487,684	207.50p	*	*
	2002 LTIP	101,672	–	–	–	101,672	**	*	*
	Deferred Bonus Plan	9,887	–	–	–	9,887	**	†	†
P E R Jansen	2002 LTIP	1,250,000	–	–	–	1,250,000	**	*	*
(resigned 16 June 2004)	1999 executive scheme:								
	Unapproved options	2,896,551	–	–	–	2,896,551	29.00p	*	*
B C Sandahl	1999 executive scheme:								
(resigned 22 March 2004)	Unapproved options	–	431,804	–	–	431,804	207.50p	*	*
	2002 LTIP	70,001	13,933	–	–	83,934	**	*	*
	Deferred Bonus Plan	19,392	–	–	–	19,392	**	†	†
D C Wilson	1999 executive scheme:								
(resigned 4 December 2003)	Approved options	–	14,457	–	–	14,457	207.50p	*	*
	Unapproved options	–	90,795	–	–	90,795	207.50p	*	*
	Unapproved options	–	287,872	–	–	287,872	244.00p	*	*
	2002 LTIP	100,671	–	–	–	100,671	**	*	*
	Deferred Bonus Plan	14,647	–	–	–	14,647	**	†	†

*The earliest exercise date is as soon as practicable after 30 September which first falls three years after the original grant date given that the Company's compound EPS growth over the three years ending on that 30 September has to be assessed and notified to participants prior to any possible exercise. The latest exercise date will normally be the third anniversary of the notification of the ability to exercise.

**These options are exercisable at no cost.

†The right to acquire the beneficial interest in the shares deposited under the Deferred Bonus Plan from Mourant & Co Trustees Limited arises three years after the date of the grant and is conditional upon the Director remaining employed by the Company.

The mid-market price of the Company's ordinary shares at the close of business on 29 October 2004 was 4.12p (30 September 2003: 19.75p) and the range during the financial period ended 31 October 2004 was 4.05p to 21.50p. These mid-market prices are as quoted on the London Stock Exchange.

None of the Directors exercised any options during the period ended 31 October 2004 or the preceding financial year.

On behalf of the Board
M E Beckett
Chairman of the Remuneration Committee
29 December 2004

ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding year with the exception of the adoption of Abstract 38 – Accounting for ESOP Trusts issued by the Urgent Issues Task Force in December 2003 as explained in note 12.

1 Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

2 Basis of consolidation

The accounts consolidate those of the Company and its subsidiary undertakings drawn up to 31 October (previously 30 September) each year. The results of subsidiaries acquired or disposed of are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

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

3 Intangible assets – goodwill

Goodwill arising on acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and then amortised on a straight line basis over its useful economic life of between 15 and 20 years. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 30 September 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet. Provision is made for any impairment.

On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

4 Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation on tangible fixed assets, 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 years
Short leasehold properties	Period of lease
Aircraft	20 years
Aircraft spares	15 years
Cruise ships	10 to 15 years
Other fixed assets	3 to 15 years

5 Aircraft overhaul and maintenance costs

The cost of major overhauls of owned and finance leased engines, auxiliary power units and airframes is capitalised and then amortised over between two and ten years until the next scheduled major overhaul. Provision is made for the future costs of major overhauls of leased engines, auxiliary power units and airframes by making appropriate charges to the profit and loss account, calculated by reference to the number of hours flown during the period, as a consequence of legal obligations placed upon the Group under the terms of certain of the operating leases. Where the terms of operating leases do not include conditions in respect of major overhauls, then the cost of such overhauls is capitalised and then amortised to realisable value over between two and ten years (or the remainder of the lease period if shorter) until the next scheduled major overhaul.

6 Start-up costs

Where costs are incurred as part of the start-up or commissioning of a fixed asset, and that asset is available for use but incapable of operating at normal levels without such a start-up or commissioning period, then such costs are capitalised within fixed assets.

Other pre-operating costs incurred prior to bringing an asset into use are expensed to the profit and loss account as incurred.

7 Investments

Except as stated in 'Associated and joint venture undertakings', fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

8 Associated and joint venture undertakings

Undertakings, other than subsidiary undertakings, in which the Group has a long term participating interest and over which it exerts significant influence, are associated undertakings.

Those undertakings in which the Group has a long term interest and which the Group jointly controls with one or more other party are defined as joint venture undertakings.

The Group's share of the profits less losses and other recognised gains and losses of the associated and joint venture undertakings is included in the Group profit and loss account and statement of total recognised gains and losses.

Joint venture undertakings in the Group balance sheet are accounted for using the gross equity method of consolidation. Associated undertakings are included at the Group's share of net assets, after adjustment for goodwill.

9 Stocks

Stocks are stated at the lower of cost and net realisable value.

10 Income recognition and associated costs

Turnover 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. Revenues 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 profit and loss account on holiday departure. Revenue relating to travel agency commission on third party leisure travel products is recognised when earned, which is on receipt of the full payment from the customer. Other revenues and associated expenses are taken to the profit and loss account as earned or incurred. Certain expenses, such as the cost of non-revenue earning flights, brochure and promotional costs, are charged to the profit and loss account over the season to which they relate where recovery of the costs is reasonably assured. Turnover and expenses exclude intra-group transactions.

11 Tax

Corporation tax payable is provided on taxable profits at the current rate. In accordance with the requirements of FRS 19, provision is made for deferred tax so as to recognise all timing 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. 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 timing differences are expected to reverse, and are based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as more likely than not to be recoverable against future taxable profits. Deferred tax is recognised on the retained earnings of overseas subsidiaries, joint ventures and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary, joint venture or associated undertaking.

12 Pension costs

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

The Group also operates a number of defined benefit schemes, principally outside the UK, and the pension costs charged against profits are based on actuarial methods and assumptions.

13 Foreign currency

Average exchange rates are used to translate the results of all overseas subsidiary undertakings. The balance sheets of such overseas subsidiary undertakings are translated at period end exchange rates. The resulting exchange differences are dealt with through reserves.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction or at the appropriate hedged rate, where hedging instruments have been used. Foreign currency monetary assets and liabilities held at the period end are translated at period end exchange rates, or the exchange rate of related hedging instruments where appropriate. The resulting exchange gain or loss is dealt with in the profit and loss account.

14 Leases

Assets held under finance leases are capitalised in the balance sheet and depreciated over their expected useful lives.

The interest element of lease payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the initial period of the lease term.

15 Finance costs

Finance costs of debt, non-equity shares and non-equity minority interests are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for non-equity shares and non-equity minority interests are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss account as an appropriation of profits.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to make the asset ready for use are complete.

ACCOUNTING POLICIES

16 Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

17 Derivative financial instruments

Where facilities are available, the Group uses derivative instruments to reduce exposure to foreign exchange risk, fuel risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a forward foreign exchange or fuel contract to be treated as a hedge, the instrument must be related to actual foreign currency or fuel assets or liabilities, or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange or fuel rate movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Group's accounts.

For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets or liabilities or a probable commitment, and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

18 Own shares held under trust

In accordance with UITF Abstract 38 – Accounting for ESOP Trusts, own shares held by trustees under Employee Share Ownership Plans are accounted for as a deduction from shareholders' funds under the heading "own shares" at their book value at 30 September 2003 plus subsequent cost.

GROUP PROFIT AND LOSS ACCOUNT

	note	13 months ended 31 October 2004 Pre-goodwill and exceptional operating items £m	Goodwill and exceptional operating items (note 2) £m	Total £m	Year ended 30 September 2003 Pre-goodwill and exceptional operating items £m	Goodwill and exceptional operating items (note 2) £m	Total £m
Turnover: Group and share of joint ventures							
Continuing operations	1(a)	3,498.7	–	3,498.7	3,827.6	–	3,827.6
Discontinued operations		–	–	–	397.7	–	397.7
		3,498.7	–	3,498.7	4,225.3	–	4,225.3
Less: share of joint ventures' turnover							
Continuing operations	1(a)	(35.9)	–	(35.9)	(35.1)	–	(35.1)
Group turnover		3,462.8	–	3,462.8	4,190.2	–	4,190.2
Cost of sales	3	(2,959.0)	(39.4)	(2,998.4)	(3,774.4)	(25.6)	(3,800.0)
Gross profit		503.8	(39.4)	464.4	415.8	(25.6)	390.2
Net operating expenses pre-goodwill amortisation		(528.5)	(22.9)	(551.4)	(781.4)	(321.3)	(1,102.7)
Goodwill amortisation	10		(12.8)	(12.8)		(25.6)	(25.6)
Net operating expenses	3	(528.5)	(35.7)	(564.2)	(781.4)	(346.9)	(1,128.3)
Operating loss	1(b)						
Continuing operations		(24.7)	(75.1)	(99.8)	(329.5)	(289.6)	(619.1)
Discontinued operations		–	–	–	(36.1)	(82.9)	(119.0)
Group operating loss		(24.7)	(75.1)	(99.8)	(365.6)	(372.5)	(738.1)
Income from interests in joint ventures and associates	1(c)						
Joint ventures – continuing operations		5.6	(0.9)	4.7	6.2	(9.5)	(3.3)
– goodwill amortisation	12		(0.7)	(0.7)		(1.0)	(1.0)
Associates – continuing operations		1.6	(4.2)	(2.6)	1.1	(17.5)	(16.4)
– goodwill amortisation			–	–		(0.3)	(0.3)
Group and share of joint ventures' and associates' operating loss		(17.5)	(80.9)	(98.4)	(358.3)	(400.8)	(759.1)
Exceptional items	1(d)						
Profit/(loss) on sale of subsidiary undertakings							
– continuing operations				10.9			5.8
– discontinued operations				–			(81.4)
(Loss)/profit on sale of tangible fixed assets	1(e)						
– continuing operations				(3.4)			1.9
– discontinued operations				–			(0.2)
Profit on sale of joint venture undertaking				0.1			–
Loss on termination of operations	1(f)						
– continuing operations				(18.5)			(1.1)
– discontinued operations				(0.5)			(1.3)
Loss on ordinary activities before finance charges				(109.8)			(835.4)
Finance charges (net)	1(g), 4						
Group				(62.5)			(51.9)
Exceptional finance charges				(15.6)			(22.5)
Joint ventures and associates				(2.4)			(1.1)
Total finance charges (net)				(80.5)			(75.5)
Loss on ordinary activities before tax	1(h), 5			(190.3)			(910.9)
Tax on loss on ordinary activities	7			(13.0)			2.8
Loss on ordinary activities after tax				(203.3)			(908.1)
Equity minority interests				(0.3)			(0.4)
Non-equity minority interests	23			–			(4.7)
Loss for the financial period				(203.6)			(913.2)
Dividends				–			–
Transfer from reserves	22			(203.6)			(913.2)
Loss per share	9						
Basic and diluted				(37.88p)			(185.51p)
– pre-goodwill amortisation				(35.37p)			(180.05p)
– pre-goodwill amortisation and exceptional items				(17.75p)			(85.96p)

The accounting policies on pages 22 to 24 and notes on pages 30 to 52 form part of these accounts.

GROUP BALANCE SHEET

	note	At 31 October 2004 £m	At 30 September 2003 Restated* £m
Fixed assets			
Intangible assets – goodwill	10	146.2	277.8
Tangible assets	11	302.8	367.3
Joint venture undertakings	12		
Share of gross assets		89.6	84.6
Share of gross liabilities		(59.6)	(59.2)
Goodwill		11.0	11.7
		41.0	37.1
Investments in associated undertakings	12	10.0	13.7
Other investments	12	0.1	0.1
		51.1	50.9
Total fixed assets		500.1	696.0
Current assets			
Stocks	13	6.7	11.3
Debtors: amounts falling due within one year	14	281.6	431.9
Debtors: amounts falling due after one year	15	104.6	140.4
Cash and deposits	16	305.2	254.9
		698.1	838.5
Creditors: amounts falling due within one year	17	(1,056.6)	(1,230.6)
Net current liabilities		(358.5)	(392.1)
Total assets less current liabilities		141.6	303.9
Creditors: amounts falling due after one year			
Convertible debt	18	(216.4)	(221.6)
Other creditors	18	(677.8)	(650.9)
		(894.2)	(872.5)
Provisions for liabilities and charges	20	(126.4)	(104.3)
Net liabilities	1(i)	(879.0)	(672.9)
Capital and reserves			
Called up share capital	21	54.4	49.5
Share premium account	22	114.2	113.9
Capital redemption reserve	22	3.2	3.2
Other reserves	22	–	18.0
Own shares	22	(0.3)	(0.3)
Profit and loss account	22	(1,051.9)	(858.6)
Equity shareholders' deficit		(880.4)	(674.3)
Equity minority interests		1.4	1.4
		(879.0)	(672.9)

The accounts were approved by the Board of Directors on 29 December 2004.

J Allkins
Director

The accounting policies on pages 22 to 24 and notes on pages 30 to 52 form part of these accounts.

*Restated for adoption of UITF 38 – Accounting for ESOP Trusts (see note 12).

COMPANY BALANCE SHEET

	note	At 31 October 2004 £m	At 30 September 2003 Restated* £m
Fixed assets			
Tangible assets	11	6.9	19.0
Investments	12	368.1	501.4
Total fixed assets		375.0	520.4
Current assets			
Stocks	13	–	3.1
Debtors: amounts falling due within one year	14	1,610.9	1,375.5
Debtors: amounts falling due after one year	15	29.4	43.7
Cash and deposits	16	162.0	116.7
		1,802.3	1,539.0
Creditors: amounts falling due within one year	17	(2,302.5)	(1,828.0)
Net current liabilities		(500.2)	(289.0)
Total assets less current liabilities		(125.2)	231.4
Creditors: amounts falling due after one year			
Convertible debt	18	(216.4)	(221.6)
Other creditors	18	(306.5)	(285.8)
		(522.9)	(507.4)
Provisions for liabilities and charges	20	(2.9)	(21.0)
Net liabilities		(651.0)	(297.0)
Capital and reserves			
Called up share capital	21	54.4	49.5
Share premium account	22	114.2	113.9
Capital redemption reserve	22	3.2	3.2
Other reserves	22	153.6	153.6
Own shares	22	(0.1)	(0.1)
Profit and loss account	22	(976.3)	(617.1)
Equity shareholders' deficit		(651.0)	(297.0)

The accounts were approved by the Board of Directors on 29 December 2004.

J Allkins
Director

The accounting policies on pages 22 to 24 and notes on pages 30 to 52 form part of these accounts.

*Restated for adoption of UITF 38 – Accounting for ESOP Trusts (see note 12).

GROUP CASH FLOW STATEMENT

	note	13 months ended 31 October 2004 £m	Year ended 30 September 2003 £m
Net cash inflow/(outflow) from operating activities	24	26.5	(109.4)
Dividends received from associated undertakings		–	1.3
Returns on investments and servicing of finance			
Interest received		24.3	25.4
Interest paid		(86.2)	(81.5)
Interest element of finance leases		(7.4)	(6.9)
Dividends paid on undated preference shares	23	–	(5.9)
Minority interests		(0.3)	(0.2)
Net cash outflow from returns on investments and servicing of finance		(69.6)	(69.1)
Tax paid		(16.2)	(21.3)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(29.1)	(78.4)
Sale of tangible fixed assets		8.0	29.9
Net cash outflow from capital expenditure and financial investment		(21.1)	(48.5)
Acquisitions and disposals	12		
Purchase of subsidiary undertakings		(7.0)	(1.4)
Cash at bank and in hand acquired with subsidiaries		15.2	–
Proceeds less cash at bank and in hand relating to disposal of subsidiaries		123.1	(0.8)
Net cash inflow/(outflow) from acquisitions and disposals		131.3	(2.2)
Cash inflow/(outflow) before management of liquid resources and financing		50.9	(249.2)
Management of liquid resources			
Movement on term deposits		11.8	43.2
Net cash inflow from management of liquid resources		11.8	43.2
Financing			
Repayment of undated preference shares		–	(1.0)
Redemption of Convertible Bonds due 2007		–	(8.4)
Loan facilities utilised		14.4	228.6
Capital element of finance lease rental payments		(26.3)	(28.0)
Net cash (outflow)/inflow from financing		(11.9)	191.2
Increase/(decrease) in cash in the period		50.8	(14.8)

	note	13 months ended 31 October 2004 £m	Year ended 30 September 2003 £m
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the period		50.8	(14.8)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		11.9	(191.2)
Cash inflow from decrease in liquid resources		(11.8)	(43.2)
Changes in net debt resulting from cash flows		50.9	(249.2)
Loans acquired with subsidiary undertakings		(27.1)	–
Finance leases disposed with subsidiary undertakings		0.1	–
Transfer of Convertible Bonds due 2007 redeemed 30 September 2002, settled 3 October 2002		–	(8.4)
7.51% cumulative undated preference shares reclassified from minority interests		–	(208.3)
Conversion of Convertible Bonds due 2007		5.2	–
Issue costs of undated preference shares		–	(1.7)
Issue costs of Convertible Bonds due 2007		–	(1.7)
Capitalisation of finance leases		(30.4)	(27.3)
Exchange differences		31.4	19.2
Movement in net debt in the period		30.1	(477.4)
Net debt brought forward		(607.3)	(129.9)
Net debt carried forward	25	(577.2)	(607.3)

The accounting policies on pages 22 to 24 and notes on pages 30 to 52 form part of these accounts.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	13 months ended 31 October 2004 £m	Year ended 30 September 2003 £m
Loss for the financial period	(203.6)	(913.2)
Currency differences on foreign currency net investments	(9.6)	10.3
Total recognised gains and losses relating to the period	(213.2)	(902.9)

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' DEFICIT

	13 months ended 31 October 2004 £m	Year ended 30 September 2003 £m
Loss for the financial period	(203.6)	(913.2)
Exchange differences	(9.6)	10.3
Issue of shares (net of expenses)	5.2	–
Goodwill written back to reserves (see note 22)	1.9	52.4
Net increase in shareholders' deficit	(206.1)	(850.5)
Equity shareholders' (deficit)/funds at 1 October	(674.3)	176.5
Equity shareholders' deficit at period end	(880.4)	(674.0)
Reclassification of own shares held under trust		(0.3)
Equity shareholders' deficit at period end restated		(674.3)

The accounting policies on pages 22 to 24 and notes on pages 30 to 52 form part of these accounts.

NOTES TO THE ACCOUNTS

1 Segmental information

		2004* £m	2003* £m
(a) Turnover			
UK		2,194.9	2,340.5
Other Europe	Northern Europe	863.9	886.4
North America		404.0	565.6
Group continuing		3,462.8	3,792.5
Discontinued	Other Europe – Germany	–	397.7
Group		3,462.8	4,190.2
Joint ventures		35.9	35.1
Group and share of joint ventures		3,498.7	4,225.3

Turnover by destination is not materially different from turnover by origin. The Group operates in one class of business, being the leisure travel industry.

Turnover for discontinued operations relates to the German business which was sold on 30 September 2003.

		Pre-goodwill and exceptional operating items 2004 £m	Pre-goodwill and exceptional operating items 2003 £m	Goodwill amortisation 2004 £m	Goodwill amortisation 2003 £m	Exceptional operating items 2004 £m	Exceptional operating items 2003 £m	Total 2004 £m	Total 2003 £m
(b) Operating (loss)/profit									
UK		(85.3)	(325.4)	(5.7)	(5.5)	(62.1)	(150.0)	(153.1)	(480.9)
Other Europe	Northern Europe	48.5	(4.0)	(0.5)	(0.8)	(0.2)	(32.2)	47.8	(37.0)
North America		12.1	(0.1)	(6.6)	(14.8)	–	(86.3)	5.5	(101.2)
Group continuing		(24.7)	(329.5)	(12.8)	(21.1)	(62.3)	(268.5)	(99.8)	(619.1)
Discontinued	Other Europe – Germany	–	(36.1)	–	(4.5)	–	(78.4)	–	(119.0)
Group		(24.7)	(365.6)	(12.8)	(25.6)	(62.3)	(346.9)	(99.8)	(738.1)

	Pre-goodwill and exceptional operating items 2004 £m	Pre-goodwill and exceptional operating items 2003 £m	Goodwill amortisation 2004 £m	Goodwill amortisation 2003 £m	Exceptional operating items 2004 £m	Exceptional operating items 2003 £m	Total 2004 £m	Total 2003 £m
(c) Income from interests in joint ventures and associates								
Joint ventures	5.6	6.2	(0.7)	(1.0)	(0.9)	(9.5)	4.0	(4.3)
Associates	1.6	1.1	–	(0.3)	(4.2)	(17.5)	(2.6)	(16.7)
	7.2	7.3	(0.7)	(1.3)	(5.1)	(27.0)	1.4	(21.0)

		2004 £m	2003 £m
(d) Profit/(loss) on sale of subsidiary undertakings (see note 12)			
UK		0.8	5.8
Other Europe	Northern Europe	(0.3)	–
North America		10.4	–
Group continuing		10.9	5.8
Discontinued	Other Europe – Germany	–	(81.4)
Group		10.9	(75.6)

The tax effect of the profit/(loss) on sale of subsidiary undertakings was £0.1m (2003: £nil).

		2004 £m	2003 £m
(e) (Loss)/profit on sale of tangible fixed assets			
UK		(3.9)	0.6
Other Europe	Northern Europe	0.5	1.3
North America		–	–
Group continuing		(3.4)	1.9
Discontinued	Other Europe – Other	–	(0.2)
Group		(3.4)	1.7

The tax effect of the profit on sale of tangible fixed assets was £0.2m (2003: £0.5m).

*Throughout the notes on pages 30 to 52, 2004 means the 13 months ended 31 October 2004 in the context of profit and loss and cash flow notes and 31 October 2004 in the case of balance sheet notes. 2003 means the year ended 30 September 2003 or 30 September 2003 as appropriate.

1 Segmental information continued

		2004 £m	2003 £m
(f) Loss on termination of operations			
UK	continuing	(18.5)	(1.1)
Other Europe	discontinued	(0.5)	(1.3)
		(19.0)	(2.4)

On 16 April 2004, the Group announced agreed arrangements with Louis Limited, a cruise and hotel group listed on the Cyprus Stock Exchange, under which Louis took over operation of three cruise ships. The loss on termination of the Group's cruise business amounts to £18.6m.

Also included within the UK terminated operations are the costs of exiting of the Group from Vacation Ownership operations. During the period, the Group recorded £0.1m of profits (2003: loss of £1.1m).

In Other Europe, the Group announced in 2000 the closure of its Belgian charter airline operations and closed its tour operations in France and Belgium. During 2004, the Group incurred £0.5m of costs relating to this activity (2003: £1.3m).

There was no material tax effect in respect of these items.

		2004 £m	2003 £m
(g) Finance charges (net)			
UK		(62.0)	(35.1)
Other Europe	Northern Europe	4.0	3.2
North America		(4.5)	(12.3)
Group continuing		(62.5)	(44.2)
Discontinued	Other Europe – Germany	–	(7.7)
Group		(62.5)	(51.9)
Exceptional finance charges		(15.6)	(22.5)
Joint ventures		(1.7)	(1.1)
Associates		(0.7)	–
Joint ventures and associates		(2.4)	(1.1)
Total finance charges (net) (note 4)		(80.5)	(75.5)

The exceptional finance charges relate to costs incurred in the refinancing and restructuring of the Group.

Finance charges relating to discontinued operations in 2003 represent the costs of centrally funded working capital together with local external charges.

		Pre-goodwill and exceptional items 2004 £m	Pre-goodwill and exceptional items 2003 £m	Goodwill amortisation 2004 £m	Goodwill amortisation 2003 £m	Exceptional items 2004 £m	Exceptional items 2003 £m	Total 2004 £m	Total 2003 £m
(h) (Loss)/profit on ordinary activities before tax									
UK		(147.3)	(360.5)	(5.7)	(5.5)	(99.3)	(167.2)	(252.3)	(533.2)
Other Europe	Northern Europe	52.5	(0.8)	(0.5)	(0.8)	–	(30.9)	52.0	(32.5)
North America		7.6	(12.4)	(6.6)	(14.8)	10.4	(86.3)	11.4	(113.5)
Group continuing		(87.2)	(373.7)	(12.8)	(21.1)	(88.9)	(284.4)	(188.9)	(679.2)
Discontinued	Other Europe – Germany	–	(43.8)	–	(4.5)	–	(159.8)	–	(208.1)
	– Other	–	–	–	–	(0.5)	(1.5)	(0.5)	(1.5)
Group		(87.2)	(417.5)	(12.8)	(25.6)	(89.4)	(445.7)	(189.4)	(888.8)
Joint ventures		3.9	5.1	(0.7)	(1.0)	(0.8)	(9.5)	2.4	(5.4)
Associates		0.9	1.1	–	(0.3)	(4.2)	(17.5)	(3.3)	(16.7)
Group and share of joint ventures and associates		(82.4)	(411.3)	(13.5)	(26.9)	(94.4)	(472.7)	(190.3)	(910.9)

	2004 £m	2003 Restated £m
(i) Net (liabilities)/assets		
UK	(947.5)	(712.1)
Other Europe	25.1	2.8
North America	43.4	36.4
	(879.0)	(672.9)

NOTES TO THE ACCOUNTS

2 Exceptional operating items

				2004 £m	2003 £m
UK		balance sheet restructuring	(i)	(4.8)	–
		operational restructuring	(ii)	(53.2)	–
		other advisory fees	(iii)	(4.2)	(10.1)
		balance sheet review	(iv)	1.8	(135.4)
		restructuring of aircraft leases	(v)	(1.7)	–
		directors' settlements	(vi)	–	(4.5)
Other Europe	Northern Europe	balance sheet review	(iv)	(0.2)	(32.2)
North America		balance sheet review	(iv)	–	(86.3)
Group continuing				(62.3)	(268.5)
Discontinued	Other Europe – Germany	balance sheet review	(iv)	–	(78.4)
Group				(62.3)	(346.9)
Joint ventures		operational restructuring	(ii)	(0.9)	–
		balance sheet review	(iv)	–	(9.5)
Associates		balance sheet review	(iv)	(4.2)	(17.5)
				(67.4)	(373.9)

(i) Balance sheet restructuring represents the costs incurred in respect of preparatory work relating to the proposed refinancing and restructuring of the Group.
(ii) Operational restructuring represents redundancy and other costs incurred in reorganising the Group's UK businesses.
(iii) Other advisory fees represent costs incurred in respect of the 2003 refinancing of the Group.
(iv) The balance sheet review charges which total £2.6m (2003: £359.3m) represent adjustments to the carrying value of goodwill and certain other assets. In the period to 31 October 2004, additional provisions of £6.5m, including £1.9m in respect of goodwill previously written off to reserves, have been made and provisions of £3.9m made last year have been released on the basis of improved information.
Where the impairment provisions have resulted from an evaluation of the value in use of certain assets, a discount rate of 9% has been applied.
(v) This represents the net cost of the restructuring of certain aircraft leases.
(vi) Directors' settlements represent the costs in 2003 of terminating the contracts of certain former Directors.

3 Cost of sales and net operating expenses

	Continuing operations 2004 £m	Discontinued operations 2004 £m	Total 2004 £m	Continuing operations 2003 £m	Discontinued operations 2003 £m	Total 2003 £m
Cost of sales	2,998.4	–	2,998.4	3,432.3	367.7	3,800.0
Net operating expenses						
Selling and marketing costs	203.0	–	203.0	275.9	42.1	318.0
Administrative expenses	361.2	–	361.2	703.4	106.9	810.3
	564.2	–	564.2	979.3	149.0	1,128.3

Included within cost of sales are £39.4m of exceptional items (2003: £25.6m) relating to continuing operations and £nil relating to discontinued operations (2003: £nil). Included within administrative expenses are £22.9m of exceptional items (2003: £242.9m) relating to continuing operations and £nil (2003: £78.4m) relating to discontinued operations. See note 2 for further explanation.

4 Finance charges (net)

	2004 £m	2003 £m
Interest payable on		
– bank borrowings	(22.9)	(35.4)
– other borrowings	(27.6)	(30.9)
– undated preference shares	(17.0)	(11.5)
Share of joint ventures' and associates' interest payable (see note 1 (g))	(2.4)	(1.1)
Amortisation of issue costs relating to undated preference shares	–	(1.7)
Amortisation of issue costs relating to Convertible Bonds	–	(1.7)
Finance charges in respect of finance leases	(9.0)	(6.9)
	(78.9)	(89.2)
Exceptional finance charges (see note 1 (g))	(15.6)	(22.5)
Interest capitalised	–	1.2
	(94.5)	(110.5)
Bank interest receivable	14.0	34.0
Foreign exchange gain	–	1.0
	(80.5)	(75.5)

5 Loss on ordinary activities before tax

	2004 £m	2003 £m
The loss on ordinary activities is stated after charging/(crediting):		
Auditors' remuneration for statutory audit		
– Group	1.3	1.3
– Company	0.4	0.3
Depreciation of tangible fixed assets		
– owned	68.5	81.9
– held under finance leases	8.9	10.4
Amortisation of goodwill	13.5	26.9
Operating lease payments		
– hire of aircraft and aircraft spares	135.5	120.2
– other	87.2	99.0
Exceptional operating items (see note 2)	67.4	373.9
(Profit)/loss on sale of subsidiary undertakings (see note 1 (d))	(10.9)	75.6
Profit on sale of joint venture undertaking	(0.1)	–
Loss/(profit) on sale of tangible fixed assets (see note 1 (e))	3.4	(1.7)
Loss on termination of operations (see note 1 (f))	19.0	2.4

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

	2004 £m	2004 %	2003 £m	2003 %
Audit services:				
Statutory audit	1.3	16	1.3	31
Further assurance services	1.9	24	2.4	57
Tax advisory services	0.9	11	0.5	12
Other non-audit services	4.0	49	–	–
	8.1		4.2	

Fees for further assurance services principally comprise accounting assistance, investigatory and reporting accountants work.

Fees for other non-audit services principally comprise business plan modelling work. Amounts payable to Deloitte & Touche LLP and their associates by the Company and its UK subsidiary undertakings in respect of non-audit services were £5.6m (2003: £2.3m).

6 Directors and employees

	2004 £m	2003 £m
Staff costs during the period were as follows:		
Wages and salaries	371.5	445.4
Social security costs	42.5	40.8
Other pension costs (see note 28)	16.6	13.4
	430.6	499.6

The average number of employees of the Group during the period was 17,441 (2003: 22,961). The Group does not categorise its employees by function as it operates in one class of business.

Disclosures on 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 UK Listing Authority are on pages 20 to 21 within the Remuneration report and form part of these audited accounts.

NOTES TO THE ACCOUNTS

7 Tax on loss on ordinary activities

(a) Analysis of charge/(credit) in period

		2004 £m	2003 £m
Current tax			
The current tax charge/(credit) is based on the loss for the period and is made up as follows:			
UK	corporation tax at 30% (2003: 30%)	0.1	–
	adjustments in respect of previous periods	(14.7)	30.1
		(14.6)	30.1
Overseas	corporation tax	20.8	17.3
	adjustments in respect of previous periods	3.7	0.2
		24.5	17.5
Tax on share of profits of joint ventures and associates		2.9	0.6
Total current tax		12.8	48.2
Deferred tax			
	origination and reversal of timing differences	(0.6)	(8.2)
	adjustments in respect of previous periods	0.8	(42.8)
Total deferred tax		0.2	(51.0)
Tax on loss on ordinary activities		13.0	(2.8)

(b) Tax reconciliation

	2004 £m	2003 £m
Loss on ordinary activities before tax	(190.3)	(910.9)
Expected tax credit at 30%	(57.1)	(273.3)
Reconciling items:		
Capital allowances less than depreciation	0.9	39.1
Other timing differences	(0.3)	23.0
Expenses not deductible for tax purposes	35.6	8.8
Lower rates of tax suffered on overseas earnings	(8.6)	(12.4)
Losses for which tax relief is not available	52.7	273.6
Utilisation of overseas brought forward losses	(2.5)	(0.2)
Adjustments to UK tax charge in respect of previous periods	(14.7)	(13.0)
Adjustments to overseas tax charge in respect of previous periods	3.7	–
Rate impact of Tonnage Tax	(1.0)	(4.2)
Non-equity minority interests	–	(1.3)
Goodwill not deductible for tax purposes	4.1	8.1
Total current tax	12.8	48.2

(c) Factors that may affect future tax charges

Deferred tax is not recognised on the unremitted earnings of overseas subsidiaries, joint ventures and associates where the relevant earnings are expected to be reinvested.

Surplus losses of £529.0m (2003: £517.5m) are available in the UK and overseas for offset against future profits.

8 Loss for the financial period

The Company, as parent company of the Group, has taken advantage of the exemption included in section 230 of the Companies Act 1985 and has not included its own profit and loss account in these accounts. The loss after tax of the Company amounted to £359.2m (2003: £685.2m).

9 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding those held in the employee share ownership trusts. Due to losses made, there is no difference between basic and diluted loss per share.

Supplementary loss per share figures are presented. These exclude the effects of the amortisation of goodwill and also the effects of the exceptional items and are presented to allow comparison to the prior period on a like-for-like basis.

	2004			2003		
	Loss attributable to ordinary shareholders £m	Weighted average number of shares millions*	Per share amount p	Loss attributable to ordinary shareholders £m	Weighted average number of shares millions*	Per share amount p
Basic and diluted loss per share	(203.6)	537.5	(37.88)	(913.2)	492.2	(185.51)
Effect of goodwill amortisation	13.5		2.51	26.9		5.46
Basic and diluted loss per share pre-goodwill amortisation	(190.1)	537.5	(35.37)	(886.3)	492.2	(180.05)
Exceptional items						
Exceptional operating items	67.4		12.54	373.9		75.96
Exceptional finance charges	15.6		2.90	22.5		4.57
Loss/(profit) on sale of tangible fixed assets	3.4		0.63	(1.7)		(0.35)
(Profit)/loss on sale of subsidiary undertakings	(10.9)		(2.03)	75.6		15.36
Profit on sale of joint venture undertaking	(0.1)		(0.02)	–		–
Loss on termination of operations	19.0		3.54	2.4		0.48
Tax relating to the exceptional items	0.3		0.06	(9.5)		(1.93)
Basic and diluted loss per share pre-goodwill amortisation and exceptional items	(95.4)	537.5	(17.75)	(423.1)	492.2	(85.96)

*The number of shares has been reduced by 2.7m, being the weighted average number of shares held by the employee share ownership trusts (2003: 2.7m).

10 Intangible assets – goodwill

	Group £m	Company £m
Cost		
At 1 October 2003	411.9	–
Additions (see note 12)	0.5	–
Disposals (see note 12)	(170.9)	–
Exchange differences	(17.8)	–
At 31 October 2004	223.7	–
Amortisation		
At 1 October 2003	134.1	–
Provided in period	12.8	–
Provision for impairment	0.5	–
Disposals (see note 12)	(63.8)	–
Exchange differences	(6.1)	–
At 31 October 2004	77.5	–
Net book value at 31 October 2004	146.2	–
Net book value at 30 September 2003	277.8	–

The above goodwill is being written off over periods of between 15 and 20 years.

NOTES TO THE ACCOUNTS

11 Tangible fixed assets

	Total £m	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Cruise ships £m	Other fixed assets £m
Group						
Cost						
At 1 October 2003	779.9	75.3	56.7	357.0	64.9	226.0
Additions	59.5	1.1	0.2	48.1	2.2	7.9
Acquisition of subsidiary undertakings	27.1	–	–	27.1	–	–
Reclassifications	–	(1.5)	0.2	–	–	1.3
Exchange differences	(8.5)	(1.0)	(0.2)	(4.9)	–	(2.4)
Disposals	(161.2)	(0.8)	(2.3)	(72.4)	(67.1)	(18.6)
Disposal of subsidiary undertakings	(32.0)	(3.5)	(1.1)	–	–	(27.4)
At 31 October 2004	664.8	69.6	53.5	354.9	–	186.8
Depreciation						
At 1 October 2003	412.6	28.1	29.3	161.7	54.1	139.4
Reclassifications	–	–	0.2	–	–	(0.2)
Provided in period	77.4	2.8	5.9	40.1	1.2	27.4
Provision for impairment	31.9	0.2	0.5	29.6	1.0	0.6
Exchange differences	(4.0)	(0.1)	(0.1)	(2.6)	–	(1.2)
Disposals	(137.1)	–	(1.4)	(63.7)	(56.3)	(15.7)
Disposal of subsidiary undertakings	(18.8)	(0.7)	(0.7)	–	–	(17.4)
At 31 October 2004	362.0	30.3	33.7	165.1	–	132.9
Net book value at 31 October 2004	302.8	39.3	19.8	189.8	–	53.9
Net book value at 30 September 2003	367.3	47.2	27.4	195.3	10.8	86.6

	Total £m	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Cruise ships £m	Other fixed assets £m
Company						
Cost						
At 1 October 2003	54.2	–	1.0	–	–	53.2
Additions	2.2	–	–	–	–	2.2
Disposals	(18.1)	–	–	–	–	(18.1)
At 31 October 2004	38.3	–	1.0	–	–	37.3
Depreciation						
At 1 October 2003	35.2	–	0.5	–	–	34.7
Provided in period	6.4	–	0.1	–	–	6.3
Disposals	(11.8)	–	–	–	–	(11.8)
Provision for impairment	1.6	–	–	–	–	1.6
At 31 October 2004	31.4	–	0.6	–	–	30.8
Net book value at 31 October 2004	6.9	–	0.4	–	–	6.5
Net book value at 30 September 2003	19.0	–	0.5	–	–	18.5

Freehold land, amounting to £6.9m (2003: £7.6m) for the Group and £nil (2003: £nil) for the Company, has not been depreciated.

The cost of tangible fixed assets stated above includes capitalised interest of £5.8m for the Group (2003: £7.5m) and £nil for the Company (2003: £0.3m).

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
The net book value of assets held under finance leases included above is made up as follows:				
Aircraft and aircraft spares	125.7	157.8	–	–
Cruise ships	–	4.5	–	–
Other fixed assets	2.9	4.3	2.9	4.3
	128.6	166.6	2.9	4.3

12 Fixed asset investments

	Total Restated* £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Group					
Cost					
At 1 October 2003	54.9	–	25.4	19.8	9.7
Exchange differences	(0.2)	–	(0.2)	–	–
Additions	3.4	–	3.4	–	–
Disposals	0.9	–	0.9	–	–
Share of profits	1.0	–	0.5	0.5	–
At 31 October 2004	60.0	–	30.0	20.3	9.7
Amounts written off or provided					
At 1 October 2003	15.7	–	–	6.1	9.6
Provision for impairment	4.2	–	–	4.2	–
At 31 October 2004	19.9	–	–	10.3	9.6
Goodwill					
At 1 October 2003	11.7	–	11.7	–	–
Amortisation	(0.7)	–	(0.7)	–	–
At 31 October 2004	11.0	–	11.0	–	–
Net book value at 31 October 2004	51.1	–	41.0	10.0	0.1
Net book value at 30 September 2003	50.9	–	37.1	13.7	0.1

	Total Restated* £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Company					
Cost					
At 1 October 2003	513.9	485.1	28.8	–	–
Additions	17.6	14.2	3.4	–	–
At 31 October 2004	531.5	499.3	32.2	–	–
Amounts written off or provided					
At 1 October 2003	12.5	3.0	9.5	–	–
Written off or provided in the period	150.9	150.9	–	–	–
At 31 October 2004	163.4	153.9	9.5	–	–
Net book value at 31 October 2004	368.1	345.4	22.7	–	–
Net book value at 30 September 2003	501.4	482.1	19.3	–	–

***Own shares held under trust**

In accordance with the requirements of UITF 38 – Accounting for ESOP Trusts, own shares held of £0.3m in the Group and £0.1m in the Company have been reclassified as a deduction from shareholders' funds and are no longer included in fixed asset investments. There was no impact on the profit and loss account.

Subsidiary undertakings

A list of principal subsidiary, joint venture and associated undertakings is shown in note 32 to the accounts on page 52. All of the subsidiary undertakings have been consolidated in the Group accounts.

North American disposals

On 31 October 2003, the Group disposed of its interests in Suntrips Inc. and Vacation Express, its loss making US-based tour operators, to FS Tours, Inc. for US$10m in cash over seven years. In addition, FS Tours, Inc. has agreed to pay MyTravel a total of at least US$4.5m over three years under other related agreements. The disposal agreement was subsequently amended to reduce the deferred consideration to US$1m and increase the amounts payable under the other related agreements. This did not result in any adjustment to the reported loss on disposal.

On 20 November 2003, the Group disposed of the business and assets of World Choice Travel, Inc. (WCT) to Travelocity.com LP, a Sabre Holdings company, for US$50m in cash. WCT is a US consolidator and distributor of hotel rooms and other travel-related products through a distribution network of web-based affiliates.

On 21 November 2003, the Group disposed of its US Cruise business to National Leisure Group Inc. for a consideration of US$111m in cash.

On 24 November 2003, the Group disposed of the business and assets of Lexington Services, LLC to 4202031 Canada, Inc., an affiliate of VIP International Corporation, for US$7.5m. Lexington is one of the world's leading providers of electronic connectivity services between hotels and Global Distribution Systems and Alternative Distribution Systems.

On 19 December 2003, the Group disposed of Auto Europe, its North American leisure car rental service business, including its European operations and its Drive Away Holidays business in Australia, to entities associated with Soros Private Equity Investors, LP for a consideration of US$77m in cash.

The net gain in respect of these disposals was £10.4m.

Other disposals and acquisitions

On 5 December 2003, the Group disposed of B.V. Reisebureau Marysol, a Dutch tour operator, for a consideration of €1m.

In January 2004, the Group received additional consideration of £0.8m in respect of the disposal of the business and assets of Lake Eve Development Limited in September 2003.

On 1 June 2004, the Group disposed of the assets and undertaking of Sunair B.V., a Dutch tour operator, for a consideration of €0.5m.

NOTES TO THE ACCOUNTS

12 Fixed asset investments continued

Details of the profits on disposal of US businesses and the other businesses noted on page 37 are set out in the table below.

	Total £m	US businesses £m	Other £m
Disposal proceeds	142.5	140.6	1.9
Expenses	(11.2)	(10.8)	(0.4)
Net disposal proceeds	131.3	129.8	1.5
Net assets at date of disposal	13.3	12.3	1.0
Unamortised goodwill	107.1	107.1	–
Profit on disposal	10.9	10.4	0.5

The US businesses contributed turnover of £18.3m (2003: £227.3m) and an operating loss before exceptional items and goodwill of £5.3m (2003: profit of £10.4m).

The other businesses disposed of contributed turnover of £13.0m and an operating loss before exceptional items and goodwill of £0.5m.

In December 2003, as part of the restructuring of certain aircraft leases, the Group acquired certain of the special purpose leasing companies involved in the structures. This resulted in four aircraft, previously on operating leases, coming onto the Group balance sheet, together with the related bank finance. Goodwill of £0.5m arose in relation to these acquisitions and this has been written off through the profit and loss account as part of the exceptional cost arising in respect of the restructuring. These companies did not contribute any turnover or operating profit to the Group result.

The following table sets out the major classes of assets and liabilities acquired with subsidiary undertakings during the period.

	Total fair value to the Group £m
Tangible fixed assets	27.1
Transfer from debtors	(1.1)
Cash and deposits	15.2
Borrowings	(27.1)
Tax	(1.0)
Deferred tax	(6.6)
Net assets	6.5
Goodwill arising on acquisitions in the period	0.5
Consideration	7.0

No material fair value adjustments were required in respect of acquisitions made in the period.

The total fair value of the consideration in respect of acquisitions in the period is made up as follows:

	Total £m
Cash	5.4
Costs	1.6
	7.0

Joint venture undertakings

The investment in joint venture undertakings at 31 October 2004 represents a 50% interest in Hotetur Club S.L., a hotel group based in Palma, Majorca and a 50% equity interest in Tenerife Sol S.A., a hotel operator incorporated and operating in Spain.

The Group's share of its joint ventures' net assets is made up as follows:

	2004 £m	2003 £m
Fixed assets	62.5	63.5
Current assets	27.1	21.1
Gross assets	89.6	84.6
Liabilities due within one year	(17.1)	(19.9)
Liabilities due after one year	(39.3)	(39.3)
Provisions for liabilities and charges	(3.2)	–
Gross liabilities	(59.6)	(59.2)
Net assets	30.0	25.4

Associated undertakings

The investment in associated undertakings at 31 October 2004 represents a 19.99% interest in Aqua Sol, a hotel group based in Cyprus. The interest consists of 51,574,200 of the existing shares in Aqua Sol. Warrants over 5,160,000 shares exercisable in October 2004 at a price of 75 Cypriot cents have now lapsed. The market value of the Group's investment at 31 October 2004 was £3.7m (2003: £12.9m).

Other investments

Other investments in 2004 and 2003 are all unlisted and included at cost less provision for impairment.

13 Stocks	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Goods held for resale	3.7	6.6	–	3.1
Consumables	3.0	4.7	–	–
	6.7	11.3	–	3.1

There is no material difference between the balance sheet value of stocks and their replacement cost.

14 Debtors: amounts falling due within one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Trade debtors	86.7	141.7	0.7	0.5
Amounts owed by subsidiary undertakings	–	–	1,580.1	1,340.3
Amounts owed by joint venture and associated undertakings	6.9	3.5	3.0	1.2
Current and deferred tax	–	–	5.6	–
Other debtors	53.2	64.2	9.3	4.9
Deposits and prepayments	134.8	222.5	12.2	28.6
	281.6	431.9	1,610.9	1,375.5

15 Debtors: amounts falling due after one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Amounts owed by associated undertakings	25.3	21.1	–	–
Other debtors	9.3	18.7	–	1.6
Deposits and prepayments	70.0	100.6	29.4	42.1
	104.6	140.4	29.4	43.7

16 Cash and deposits	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Cash at bank and in hand	237.6	175.4	142.2	79.0
Term deposits	67.6	79.5	19.8	37.7
	305.2	254.9	162.0	116.7

Term deposits represent cash on deposit with banks for periods in excess of 24 hours.

Included within the above balances is an amount of £53.7m (2003: £38.2m) 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 £51.1m (2003: £46.9m) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company. These balances are considered to be restricted, however, since 31 October 2004, £16.7m of the insurance cash has been remitted to MyTravel Group plc.

17 Creditors: amounts falling due within one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Loans and overdrafts (see note 18)	6.7	16.7	–	10.5
Trade creditors	303.4	422.4	5.1	6.4
Amounts owed to subsidiary undertakings	–	–	2,256.8	1,763.4
Amounts owed to joint venture undertakings	10.4	2.6	–	–
Current tax	36.3	44.6	1.5	5.0
Social security and other taxes	8.9	10.8	0.4	1.0
Other creditors	45.9	51.3	6.4	6.1
Accruals and deferred income	357.9	395.6	30.4	33.9
Amounts due under finance leases (see note 18)	24.2	23.8	1.9	1.7
Revenue received in advance	262.9	262.8	–	–
	1,056.6	1,230.6	2,302.5	1,828.0

NOTES TO THE ACCOUNTS

18 Creditors: amounts falling due after one year	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Convertible debt				
7% unsecured subordinated convertible bonds due 2007	216.4	221.6	216.4	221.6
Other creditors				
Long term borrowings				
US$30m of 8.98% unsecured senior notes repayable 2006	16.4	18.1	16.4	18.1
US$40m of 9.61% unsecured senior notes repayable 2006	21.8	24.0	21.8	24.0
US$30m of 9.82% unsecured senior notes repayable 2006	16.4	18.1	16.4	18.1
Bank loans	265.0	220.0	250.0	220.0
7.51% cumulative undated preference shares	209.0	209.0	–	–
	528.6	489.2	304.6	280.2
Other creditors and accruals				
Trade creditors	0.3	0.2	–	–
Other creditors	1.9	2.6	–	–
Taxation	11.0	8.5	–	–
Accruals and deferred income	29.5	39.5	1.4	2.7
Amounts due under finance leases	106.5	110.9	0.5	2.9
	149.2	161.7	1.9	5.6
Other creditors	677.8	650.9	306.5	285.8
	894.2	872.5	522.9	507.4
Loans and overdrafts				
Long term borrowings	263.6	269.2	54.6	60.2
Bank loans	271.4	220.0	250.0	220.0
Other loans	–	10.5	–	10.5
Overdrafts	–	5.8	–	–
Unsecured loan notes	0.3	0.4	–	–
	535.3	505.9	304.6	290.7
Less: amounts falling due within one year	(6.7)	(16.7)	–	(10.5)
Amounts falling due after one year	528.6	489.2	304.6	280.2
Analysis of repayments				
Between one and two years	521.2	–	304.6	–
Between two and five years	7.4	489.2	–	280.2
After five years	–	–	–	–
	528.6	489.2	304.6	280.2

On 15 September 2003, the holders of the unsecured subordinated convertible bonds agreed to extend the maturity of the bonds from 5 January 2004 to 5 January 2007. At the same time, the rate of interest payable semi-annually in arrears on the bonds was increased from 5.75% to 7% from that date.

Under the supplemental trust deed dated 15 September 2003, the holders of the bonds have the right to convert up to approximately £2.5m aggregate principal amount of the bonds into up to 24,745,030 new ordinary shares of 10p each at 10p per share and were issued warrants that allowed the bondholders to subscribe for up to a further 103,924,147 ordinary shares of 10p each at an exercise price of 10p per share.

During the period, £2.2m of the bonds were converted into 22,164,779 new ordinary shares and £2.7m of bonds were converted under the warrants into 27,094,532 new ordinary shares. In addition, £0.3m of bonds were converted into new ordinary shares at the conversion price of 443p, resulting in the issue of 70,366 shares.

The Company will pay a success fee in cash (or, at its option, the equivalent in ordinary shares) for distribution to the bondholders on the maturity date or earlier repayment or refinancing, on the basis of a percentage of the increase in the Company's market capitalisation. Such percentage starts at 0.4% as at 16 March 2004 and increases to 2.5% at the maturity date on a straight line basis. The base market capitalisation is £40m and the fee is subject to a cap of £11m.

The bonds can be converted at the option of the bondholder at any time between 31 January 1999 and 31 December 2006 into fully paid ordinary shares of 10p each of the Company at an initial conversion price of 443p per ordinary share but which is subject to adjustment in certain circumstances.

The Company may redeem the bonds in whole, but not in part, only at their principal amount together with accrued interest (i) at any time after 19 January 2002 provided that the average of the mid-market quotations of an ordinary share as derived from the Official List for the dealing days within the 30-day period ending on the tenth day prior to the date on which notice of redemption is given to bondholders shall have been at least 130% of the average of the conversion price (as adjusted) in effect (or deemed to be in effect) on each such dealing day; or (ii) at any time if, prior to the date of notice of such redemption, conversion rights shall have been exercised and/or purchases (and corresponding cancellations) effected in respect of 90% or more in principal amount of the bonds originally issued. In addition, certain of the bonds may be redeemed in whole but not in part in the event of certain changes affecting taxes of the UK.

In addition, the Company or any subsidiary undertaking of the Company may at any time purchase bonds in the open market or by private treaty or otherwise at any price, subject to the requirements (if any) of the UK Listing Authority. All bonds redeemed or converted or purchased by the Company or any subsidiary undertaking of the Company will be cancelled forthwith and may not be reissued or resold. No bonds were purchased during 2004 or 2003.

Unless previously purchased, redeemed or converted, the bonds will be redeemed at their principal amount on 5 January 2007, being the final maturity date.

18 Creditors: amounts falling due after one year continued

On 31 July 2001, the Company issued US$100m of unsecured senior loan notes in the US private placement market. The notes carried fixed terms and were repayable in three tranches after five, seven and ten years. Each tranche bore a fixed coupon rate of interest which is payable semi-annually. The original average coupon rate of the issue was 7.8%. During March 2003, the rate of interest payable on each tranche was increased by 1.5%. As part of the multi-party refinancing agreement dated 5 June 2003, the maturity of these US private placement notes was shortened to 31 May 2006.

On 21 March 2000, the Company entered into a multi-currency unsecured revolving credit facility of £250m. The original term of the facility was three years. Amounts drawn down under the facility were charged at a rate of LIBOR plus 0.4% per annum over an interest period as determined by the two parties.

On 27 November 2002, the £250m facility was extended on revised terms to 31 December 2003 and on 5 June 2003 it was further extended to 31 May 2006. The revised terms include a margin of 2% above LIBOR on drawings up to £125m, and of 3% over LIBOR on drawings in excess of that amount. The terms of the extension on 5 June 2003 were set out in a multi-party override agreement which included a realignment of financial covenants to reflect the Group's revised business expectations following the Strategic Review.

Under the override agreement, the Group paid an amendment fee to each finance party equal to 1% of the amount of its participation and the Group will be required to pay a success fee in cash (or, at its option, the equivalent in ordinary shares) for distribution pro rata to each relevant finance party on the maturity date of 31 May 2006 or earlier repayment or refinancing, on the basis of a percentage of the increase in the Company's market capitalisation. Such percentage starts at 2.5% as at 6 December 2003 and increases to approximately 15% at the maturity date on a straight line basis. The base market capitalisation is £40m and the fee is subject to a cap of £65m.

The override agreement affecting the various facilities was further amended by a consent letter dated 29 September 2003 under which, in return for certain consents and waivers to the override agreement, the Group will pay an additional consent fee in cash (or, at its option, the equivalent in ordinary shares) for distribution pro rata to each relevant finance party on the maturity date of 31 May 2006 or earlier repayment or refinancing, on the basis of a percentage of the increase in the Company's market capitalisation. Such percentage starts at zero as at 29 September 2003 and increases to approximately 13.5% at the maturity date on a straight line basis. The base market capitalisation is £50m.

At 31 October 2004, £250m had been drawn under this facility (30 September 2003: £220m).

In addition, there were bank loans of £21.4m ($39.3m) at 31 October 2004, (2003: £nil), representing the outstanding amounts due in respect of borrowings acquired in connection with the acquisitions referred to in note 12. These loans are repayable by monthly instalments up to September 2007 and bear interest at LIBOR plus 1%.

210,000 7.51% cumulative undated preference shares each of £1 nominal value and £999 share premium were issued by Airtours Channel Islands Limited in 2000. The shares do not entitle the holders to any rights against other Group companies and are redeemable at any time at the option of Airtours Channel Islands Limited. Airtours Channel Islands Limited used the proceeds from issuing the undated preference shares to acquire eurobonds of £105m each issued by Going Places Leisure Travel Limited and MyTravel Airways Limited, which mature in May 2006. Airtours Channel Islands Limited has entered into an agreement with the holder of the preference shares to restrict its activities. This agreement does not terminate until the preference shares are redeemed.

On 10 January 2003, the £210m 7.51% undated preference shares issued by Airtours Channel Islands Limited, which were previously treated as non-equity minority interest preference shares in the balance sheet, were reclassified as long term borrowings following modifications to the arrangements. On reclassification, the preference shares were stated net of unamortised issue costs of £1.7m. These were written off to the profit and loss account when the share issue was refinanced on 5 June 2003.

During March 2003 the effective return for the holder of the preference shares was increased by 1.15%. On 5 June 2003 the eurobond maturity date was extended to May 2006 and £1m of the preference shares were redeemed. Under the terms of the Override Agreement, an amendment fee of 1% of the amount of the preference shares outstanding was paid to the institutions who have funded the holder of the preference shares. The terms and realignment of the financial covenants are further detailed above.

The £0.3m (2003: £0.4m) of outstanding loan notes issued by MyTravel UK in connection with the acquisition of Sunway Travel (Coaching) Limited were interest free until 1 November 2000 from when interest is payable at 75 basis points below the base lending rate.

Other loans in 2003 comprised a short term interest free loan of €15m from FTi. The loan was repayable within 60 days from 30 September 2003 subject to FTi performing certain undertakings given in the agreement relating to the disposal of the business to RM 2366. The loan was repaid by 30 November 2003.

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Finance leases				
Total outstanding	130.7	134.7	2.4	4.6
Less: amounts falling due within one year	(24.2)	(23.8)	(1.9)	(1.7)
Amounts falling due after one year	106.5	110.9	0.5	2.9
Analysis of repayments				
Between one and two years	30.5	22.2	0.5	1.7
Between two and five years	68.8	57.0	–	1.2
After five years	7.2	31.7	–	–
	106.5	110.9	0.5	2.9

NOTES TO THE ACCOUNTS

19 Derivatives and other financial instruments

The Group's policies as regards derivatives and financial instruments are set out in the Operating and Financial Review on page 7. The Group does not trade in financial instruments. Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

Maturity profile of financial liabilities

The maturity profile of the Group's financial liabilities at 31 October 2004 and at 30 September 2003 was as follows:

	2004 £m	2003 £m
In one year or less	30.9	40.5
In more than one year but not more than two years	551.7	22.2
In more than two years but not more than five years	292.6	767.8
In more than five years	7.2	31.7
	882.4	862.2

Borrowing facilities

The Group had no undrawn committed borrowing facilities at 31 October 2004 (2003: £30.0m). Details of these facilities, which mature on 31 May 2006, are set out in note 18. As at 31 October 2004, the Group had undrawn committed guarantee and bonding facilities of £53.2m (2003: £29.6m).

Interest rate profile

The following interest rate and currency profiles of the Group's financial liabilities and assets are after taking into account interest rate swaps entered into by the Group.

Financial liabilities

Currency	Total 2004 £m	Floating rate £m	Fixed rate £m	Interest free £m	Total 2003 £m	Floating rate £m	Fixed rate £m	Interest free £m
Sterling	687.2	468.4	218.8	–	791.5	569.9	221.6	–
Euro	–	–	–	–	10.5	–	–	10.5
US Dollar	195.2	109.7	85.5	–	60.2	–	60.2	–
Total	882.4	578.1	304.3	–	862.2	569.9	281.8	10.5

The Sterling and US Dollar floating rate financial liabilities comprising bank borrowings and finance lease liabilities bear interest at rates based on LIBOR and, in the case of loan notes, based on bank base rate. These rates are fixed in advance for periods ranging up to six months.

The interest rate on £216.4m of the fixed rate sterling financial liabilities, being the subordinated Convertible Bonds due 2007, was 5.75% up to 15 September 2003 and is 7.00% per annum thereafter. Details relating to the conversion and redemption of the bonds are set out in note 18 to the accounts.

The weighted average interest rate on £54.6m of the fixed rate US Dollar liabilities, being the senior unsecured loan notes, is 9.48%. The weighted average term to maturity is 1.6 years (2003: 2.7 years).

The interest rates on the remainder of the fixed rate Sterling and US Dollar financial liabilities, being finance lease liabilities, are fixed at 6.3% and 5.92% respectively.

Financial assets

The Group holds the following financial assets, other than short term debtors such as trade debtors, accrued income and prepayments:

Currency	Total 2004 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m	Total 2003 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m
Sterling	176.6	176.6	–	–	102.4	102.4	–	–
US Dollar	33.0	28.9	4.1	–	46.9	42.3	4.6	–
Euro	22.6	22.6	–	–	15.3	15.3	–	–
Swedish Krona	8.7	8.6	–	0.1	15.1	15.0	–	0.1
Norwegian Krone	4.9	4.9	–	–	10.8	10.8	–	–
Danish Krone	1.0	1.0	–	–	8.8	8.8	–	–
Cyprus Pounds	1.3	1.3	–	–	11.9	11.9	–	–
Canadian Dollar	58.8	58.8	–	–	28.9	28.9	–	–
Other	2.5	2.5	–	–	19.5	19.5	–	–
Total	309.4	305.2	4.1	0.1	259.6	254.9	4.6	0.1

Financial assets comprise cash and deposits of £305.2m (2003: £254.9m), fixed asset investments other than associates and joint ventures of £0.1m (2003: £0.1m), and other debtors due in more than one year of £4.1m (2003: £4.6m).

Interest on floating rate bank deposits is based on the relevant national inter-bank rate and is fixed in advance for periods normally up to three months. The weighted average rate and period for fixed rate deposits are 4.1% and 9 days (2003: 3.5% and 15 days). The weighted average rate for floating rate deposits was 3.24% (2003: 4.6%).

19 Derivatives and other financial instruments continued

Currency exposures

The main functional currencies of the Group are Sterling, US Dollar and Euro. The following analysis of net monetary assets and liabilities shows the Group's currency exposures after the effects of forward contracts and other derivatives used to manage currency exposure. The amounts shown represent the transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-Sterling borrowings treated as hedges of net investments in overseas operations.

Net monetary assets/(liabilities)	Total 2004 £m	US Dollar £m	Euro £m	Total 2003 £m	US Dollar £m	Euro £m
Functional currency						
Sterling	(143.1)	(151.2)	8.1	12.7	20.2	(7.5)

At 31 October 2004, the Group also held open various currency swaps and forward contracts that had been taken out to hedge expected future foreign currency sales.

Fair values

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 31 October 2004.

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Short term financial liabilities and current portion of long term borrowings	30.9	30.9	40.5	40.5
Long term borrowings	851.5	656.7	821.7	657.9
Financial assets	309.4	309.4	259.6	259.6
Derivative financial instruments held to manage the interest rate, fuel and currency profile				
Forward rate agreements and interest rate swaps	–	(3.1)	–	(7.7)
Forward fuel contracts	–	–	–	1.3
Forward foreign currency contracts and options	–	1.1	3.8	1.1

The fair values of forward rate agreements, interest rate swaps, fuel contracts, forward foreign currency contracts and Sterling and US Dollar denominated long term fixed rate debt with a carrying amount of £715.5m (2003: £1,589.5m) have been determined by reference to prices available from the markets on which the instruments are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

Unrecognised gains and losses on hedges

Gains and losses on currency, interest and fuel hedging instruments used for hedging purposes are not recognised until the exposure that is being hedged is itself recognised.

A summary of such gains and losses and movements therein is as follows:

	2004			2003		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges at 1 October 2003/2002	32.9	(38.2)	(5.3)	81.4	(125.3)	(43.9)
Gains and losses recognised in the period arising in previous years	(28.6)	32.5	3.9	(73.4)	103.2	29.8
Gains and losses arising in previous years not recognised in the period	4.3	(5.7)	(1.4)	8.0	(22.1)	(14.1)
Gains and losses not recognised in the period arising in the period	0.8	(1.4)	(0.6)	24.9	(16.1)	8.8
Unrecognised gains and losses at 31 October 2004/30 September 2003	5.1	(7.1)	(2.0)	32.9	(38.2)	(5.3)
Of which:						
Gains and losses expected to be recognised:						
in the year ending 31 October 2005/30 September 2004	3.9	(5.4)	(1.5)	28.6	(32.5)	(3.9)
after 31 October 2005/30 September 2004	1.2	(1.7)	(0.5)	4.3	(5.7)	(1.4)
	5.1	(7.1)	(2.0)	32.9	(38.2)	(5.3)

NOTES TO THE ACCOUNTS

20 Provisions for liabilities and charges	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Deferred tax	21.4	14.1	–	–
Other provisions	105.0	90.2	2.9	21.0
	126.4	104.3	2.9	21.0

Deferred tax	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
At 1 October	14.1	64.1	–	13.8
Charged/(credited) during the period	0.2	(51.0)	–	(13.8)
Acquired with subsidiary undertakings	6.6	–	–	–
Disposal of subsidiary undertakings	–	(0.1)	–	–
Exchange differences	0.5	1.1	–	–
At period end	21.4	14.1	–	–

Deferred tax provided relates to the following timing differences:

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Accelerated capital allowances	17.3	16.1	–	–
Short term timing differences	5.5	4.4	–	–
	22.8	20.5	–	–
Losses carried forward	(1.4)	(6.4)	–	–
	21.4	14.1	–	–

Other provisions	Total 2004 £m	Total 2003 £m	Other provisions 2004 £m	Other provisions 2003 £m	Pension provisions 2004 £m	Pension provisions 2003 £m	Aircraft maintenance provisions 2004 £m	Aircraft maintenance provisions 2003 £m
Group								
At 1 October	90.2	29.5	25.4	–	7.7	8.5	57.1	21.0
Provided/(credited) during the period	92.3	67.5	23.3	31.6	0.6	(1.1)	68.4	37.0
Reclassification	–	20.6	–	–	–	–	–	20.6
Disposal of subsidiary undertakings	–	(0.7)	–	–	–	(0.7)	–	–
	182.5	116.9	48.7	31.6	8.3	6.7	125.5	78.6
Utilised in the period	(70.0)	(28.9)	(25.2)	(6.2)	(2.1)	–	(42.7)	(22.7)
Exchange differences	(7.5)	2.2	(0.1)	–	(0.2)	1.0	(7.2)	1.2
At period end	105.0	90.2	23.4	25.4	6.0	7.7	75.6	57.1

The pension provisions mainly relate to participation in a Swedish multi-employer scheme. Whilst payments in respect of this scheme are due after more than one year, the exact timing of the payments is uncertain.

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.

	Other provisions 2004 £m	Other provisions 2003 £m
Company		
At 1 October	21.0	–
Provided during the period	3.6	27.0
	24.6	27.0
Utilised in the period	(21.7)	(6.0)
At period end	2.9	21.0

Other provisions in the Group and Company relate to the provisions for onerous leases and future obligations.

21 Share capital

	2004 £m	2003 £m
Authorised		
736,275,000 (2003: 736,275,000) ordinary shares of 10p each	73.6	73.6

	2004 £m	2003 £m
Allotted, called up and fully paid		
544,461,136 (2003: 494,900,707) ordinary shares of 10p each	54.4	49.5

Allotments during the period

During the period, 22,164,779 shares were issued to the holders of £2.2m of convertible bonds who exercised their rights to convert under the terms of the supplemental trust deed dated 15 September 2003 (see note 18). In addition, 27,325,284 shares were issued to bondholders on the exercise of warrants under that trust deed for a consideration of £23,076 satisfied in cash and the surrender of £2.7m of convertible bonds.

70,366 ordinary shares of 10p each were issued on the conversion of £0.3m principal amount of convertible bonds at a price of 443p per share, giving rise to a share premium of £0.3m.

Contingent rights to the allotment of shares

No options were granted during the period. On 21 October 2003, the Company issued 35,092,368 non-transferable warrants and 57,997,463 transferable warrants to subscribe for ordinary shares in the capital of the Company at a price of 10p per share pursuant to the proposal for the modification of the terms and conditions of the 7% (formerly 5.75%) subordinated bonds due 2007 (formerly 2004). The warrants were issued in consideration of the bondholders approving the proposal to modify the terms of the bonds.

At 31 October 2004, the following options to subscribe for ordinary shares of 10p each were outstanding:

Date of grant	Subscription price per share	Share option scheme (1986) Class 2	Share option scheme 1999	SAYE scheme
14 July 1995	135.67p	90,000	–	–
30 March 1999	395.00p	–	–	89,652
16 March 2000	203.14p	–	–	297,832
21 June 2001	234.20p	–	–	118,715
21 December 2001	244.00p	–	299,172	–
30 May 2002	157.00p	–	1,495,891	–
25 June 2002	125.60p	–	–	2,628,179
9 January 2003	29.00p	–	228,447	–

Options are normally exercisable in the following periods:

Share option scheme (1986) Class 2	Between five years and ten years following the date of grant. The exercise of Class 2 options is dependent upon the percentage increase in EPS of the Company calculated over any six consecutive accounting periods from (and including) the base year (being the most recent accounting period ending on a date prior to the grant date of such Class 2 options) being equal to or greater than the percentage increase in EPS for the same period of the constituent company which, in terms of EPS growth for the same period, ranks as the lowest of the top quartile in the FTSE 100 Index. The constituent companies are those companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index. These conditions have been met for all outstanding options.
Share option scheme 1999	From the date that the option holder is informed that the performance condition has been satisfied until the later of the third anniversary and the sixth anniversary of the date of grant of the option.
Savings-related	Between three years and three years and six months or between five years and five years and six months following the commencement date of the savings contract dependent on whether a three year or a five year savings contract is selected.

NOTES TO THE ACCOUNTS

22 Reserves	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Own shares Restated* £m	Profit and loss account £m
Group					
At 1 October 2003	113.9	3.2	18.0	(0.3)	(858.6)
Premium on allotments during the period	0.3	–	–	–	–
Transfer to profit and loss account	–	–	–	–	(203.6)
Reclassification	–	–	(18.0)	–	18.0
Goodwill written back from reserves	–	–	–	–	1.9
Exchange differences	–	–	–	–	(9.6)
At 31 October 2004	114.2	3.2	–	(0.3)	(1,051.9)

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Own shares Restated* £m	Profit and loss account £m
Company					
At 1 October 2003	113.9	3.2	153.6	(0.1)	(617.1)
Premium on allotments during the period	0.3	–	–	–	–
Transfer to profit and loss account	–	–	–	–	(359.2)
At 31 October 2004	114.2	3.2	153.6	(0.1)	(976.3)

There were no transactions in respect of the exercise of share options in the period ended 31 October 2004. The share premium of £0.3m arising during the period relates to the conversion of convertible bonds (see note 21).

***Own shares held under trust**

Shares of the Company are held under trust by Airtours Trustee Limited as part of a long term incentive plan for employees, excluding Directors, and by Mourant & Co Trustees Limited as part of a long term incentive plan for employees of Travel Services International, Inc. In accordance with UITF 38 – Accounting For ESOP Trusts, these shares are now deducted from shareholders' funds.

The number of shares held at 31 October 2004 by Airtours Trustee Limited and Mourant & Co Trustees Limited was 1,044,888 (2003: 1,044,888) and 1,612,500 (2003: 1,612,500) respectively. These shares had a nominal value of £0.3m (2003: £0.3m) and a market value of £0.1m (2003: £0.5m) at that date.

At 31 October 2004, the Company has no distributable reserves (2003: £nil).

The cumulative amount of goodwill arising from acquisitions in prior years which has been written off to Group reserves amounts to £378.5m (2003: £380.4m). The reduction in the period comprises £1.9m in respect of impairment of goodwill.

The gain on translation of long term foreign currency borrowings by the Group was £6.3m (2003: £3.4m), all of which was taken to reserves as these borrowings were used to hedge assets and liabilities in the same currencies.

23 Non-equity minority interests	Group 2004 £m	Group 2003 £m
Profit and loss account		
Preference dividend		
Paid during period	–	5.9
Accrual brought forward	–	(1.4)
Costs amortised in period	–	0.2
	–	4.7
Balance sheet		
Cumulative undated preference shares at 1 October	–	210.0
Reclassified	–	(210.0)
	–	–
Issue costs at 1 October	–	1.9
Amortised in period	–	(0.2)
Reclassified	–	(1.7)
	–	–
At period end	–	–

Following modifications to the arrangements (see note 18), the cumulative undated preference shares issued by Airtours Channel Islands Limited in 2000 were reclassified as long term borrowings on 10 January 2003.

24 Reconciliation of operating loss to operating cash flows

	2004 £m	2003 £m
Operating loss	(99.8)	(738.1)
Depreciation charges	77.4	92.3
Goodwill amortisation	12.8	25.6
Impairment of goodwill	2.4	156.7
Impairment of fixed assets	30.3	106.2
Provision against fixed asset investments	–	11.0
Decrease/(increase) in stocks	2.4	(0.2)
Decrease in debtors	115.9	99.2
(Decrease)/increase in creditors	(142.3)	106.9
Increase in provisions	32.5	38.7
Cash impact of the termination of operations	(5.1)	(3.0)
Cash impact of the fundamental reorganisation	–	(4.7)
Net cash inflow/(outflow) from operating activities	26.5	(109.4)

The cash flow effect of the subsidiary undertakings acquired and disposed of during the period is set out in note 26 to the accounts.

25 Analysis of net debt	At 1 October 2003 £m	Cash inflow/ (outflow) £m	Acquisitions/ disposals £m	Other non-cash changes £m	Exchange movements £m	At 31 October 2004 £m
Cash at bank and in hand	175.4	45.0	–	–	17.2	237.6
Term deposits	79.5	(11.8)	–	–	(0.1)	67.6
Cash and deposits	254.9	33.2	–	–	17.1	305.2
Overdrafts	(5.8)	5.8	–	–	–	–
Debt due within one year	(10.9)	16.3	(12.1)	–	–	(6.7)
Debt due after one year	(710.8)	(30.7)	(15.0)	5.2	6.3	(745.0)
Finance leases	(134.7)	26.3	0.1	(30.4)	8.0	(130.7)
Net debt	(607.3)	50.9	(27.0)	(25.2)	31.4	(577.2)

26 Effects of acquisitions and disposals

The subsidiary undertakings disposed of during the period made the following contributions to the Group's cash flow:

	Total £m	US disposals £m	Other disposals £m
Net cash outflow from operating activities	(10.9)	(10.1)	(0.8)
Returns on investments and servicing of finance	(0.1)	(0.1)	–
Tax paid	(2.3)	(2.3)	–
Capital expenditure and financial investment	(0.3)	(0.3)	–
Financing	(0.1)	(0.1)	–
Decrease in cash in the period	(13.7)	(12.9)	(0.8)

There were no cash flows attributable to the subsidiary undertakings acquired during the period.

NOTES TO THE ACCOUNTS

27 Financial commitments	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Capital commitments are as follows:				
Contracted but not provided in these accounts	3.2	2.5	–	2.1

In addition to those noted above, the Group's share of the capital commitments of its joint venture undertakings at 31 October 2004 was £0.4m (2003: £1 4m).

	Land and buildings 2004 £m	Land and buildings 2003 £m	Aircraft and aircraft spares 2004 £m	Aircraft and aircraft spares 2003 £m	Other 2004 £m	Other 2003 £m
Annual commitments under non-cancellable operating leases are as follows:						
Group						
Expiring in one year or less	6.5	2.0	1.7	6.8	1.2	0.8
Expiring between one and five years	19.4	22.1	40.9	51.7	4.9	8.2
Expiring in five years or more	43.0	47.5	57.1	53.1	0.1	4.5
	68.9	71.6	99.7	111.6	6.2	13.5
Company						
Expiring in one year or less	–	0.1	–	–	–	0.3
Expiring between one and five years	0.2	0.6	–	–	0.1	2.6
Expiring in five years or more	0.6	0.7	–	–	–	4.3
	0.8	1.4	–	–	0.1	7.2

28 Pensions

Employees of the Company and various of its UK subsidiary undertakings participate in the Company's defined contribution pension scheme. The total pension charge for the period amounted to £7.1m (2003: £2.9m). No amounts were outstanding at either period end.

Other defined contribution schemes exist in the Group, together with liabilities in respect of insured benefits relating to workers' compensation arrangements. The total charge for the period for these schemes amounted to £8.2m (2003: £8.9m).

The Group also operates a number of defined benefit pension schemes. These are not significant to the Group but the main current period disclosures required by SSAP 24 and FRS 17 are provided below for information. The total pension charge for the period for these schemes amounted to £1.3m (2003: £1.6m).

In the UK, Bridge Travel Services Limited operates a funded defined benefit scheme which is closed to new employees, and as such, under the projected unit method, the current service cost will increase as the members approach retirement. The pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit method. The last full valuation of this scheme was at 30 November 2001, at which time the market value of the assets in the scheme totalled £2.7m. There was a surplus in the scheme of £0.2m on a continuing basis and the scheme was 123% funded on the basis of the Minimum Funding Requirement of the Pensions Act 1995. The contribution rate during the period has been 27% of pensionable salaries.

This valuation has been updated to 31 October 2004 for the purposes of FRS 17 and this valuation has been used for the disclosure given below.

In Sweden, the Group operates a number of unfunded defined benefit plans under the ITP scheme. There were no separate funds or assets to support the unfunded schemes until 1 January 2004. Since then, the Group has insured the plans with a Swedish multi-employer scheme in the form of deferred annuities. Pension obligations are calculated based on actuarial assumptions and the obligations arising are included in the balance sheet at their discounted present value net of amounts paid into the insured scheme. Valuations for the ITP schemes are made at 31 December each year end. For the purposes of the disclosure given below, however, a summary independent valuation was carried out as at 31 October 2004.

In Norway, the Group also operates a number of defined benefit schemes. The assets of the schemes comprise investment in with-profits funds administered by insurance companies. Actuarial valuations in respect of these schemes are performed annually. The last valuation was performed as at 31 December 2003.

The major assumptions made when valuing the assets and liabilities of the Group's defined benefit schemes and the overall impact of recognising the effect of these in the financial statements are as follows:

	2004			2003			2002		
	Sweden %	Norway %	UK %	Sweden %	Norway %	UK %	Sweden %	Norway %	UK %
Major assumptions									
Rate of inflation	2.0	3.0	3.0	2.0	3.0	4.0	2.0	3.0	4.0
Rate of increase in salaries	3.5	3.0	3.5	3.5	3.0	3.0	3.5	3.0	3.0
Rate of increase in pension payments	2.8	2.5	5.0	2.8	2.5	5.0	2.0	2.5	5.0
Discount rate for scheme liabilities	5.0	5.5	5.4	5.5	6.0	5.8	5.5	6.0	5.8

28 Pensions continued

The expected long term rate of return and fair value of the defined benefit schemes in aggregate were as follows:

	2004		2003		2002	
	Total market value £m	Expected long term rate of return %	Total market value £m	Expected long term rate of return %	Total market value £m	Expected long term rate of return %
Equities	3.8	4.5	3.3	6.0	3.4	6.0
Bonds	1.6	6.5	1.0	6.0	1.8	6.0
Investment property	2.5	6.5	2.4	7.2	0.4	7.2
Total market value of assets	7.9		6.7		5.6	
Present value of scheme liabilities	14.8		14.8		12.5	
Deficit	(6.9)		(8.1)		(6.9)	
Sweden	(6.0)		(7.0)		(6.9)	
Norway	0.1		0.1		(0.2)	
UK	(1.0)		(1.2)		0.2	
Total	(6.9)		(8.1)		(6.9)	

No deferred tax is attributable to these pension liabilities.

	2004 £m	2003 £m
Movement in deficit		
Deficit at start of period	(8.1)	(6.9)
Current and past service cost	(0.8)	(0.8)
Settlements	(0.2)	–
Contributions	2.8	1.2
Other finance charges	(0.2)	(0.3)
Actuarial loss	(0.5)	(0.2)
Currency movement	0.1	(1.1)
Deficit at end of period	(6.9)	(8.1)

The deficit in relation to the Swedish scheme is included in the balance sheet of the Group (see note 20).

	2004 £m	2003 £m
Analysis of amounts that would be charged to the profit and loss account		
Current service cost	(0.7)	(0.7)
Past service cost	(0.1)	(0.1)
Settlements	(0.2)	–
Total that would be charged within operating costs	(1.0)	(0.8)
Expected return on pension scheme assets	0.4	0.2
Less: interest on pension scheme liabilities	(0.6)	(0.5)
Other finance charges	(0.2)	(0.3)
Amount that would be included in the Group's profit and loss account	(1.2)	(1.1)
Total contributions paid into the scheme in the financial period	2.8	1.2

	2004 £m	2003 £m
Amounts that would be charged to the statement of total recognised gains and losses		
Actuarial return less expected return on the pension scheme assets	–	0.1
Experience gains and losses arising on the schemes' liabilities	–	0.8
Changes in assumptions underlying the present value of the schemes' liabilities	(0.5)	(1.1)
Actuarial gains and losses	(0.5)	(0.2)

The history of experience gains and losses has been:

	2004 £m	2003 £m	2002 £m
Actuarial return less expected return on the pension scheme assets	–	0.1	(0.1)
Percentage of schemes' assets	–	2.0%	(2.0%)
Experience gains and losses arising on the schemes' liabilities	–	0.8	0.6
Percentage of schemes' liabilities	–	6.0%	5.0%
Changes in assumptions underlying the present value of the schemes' liabilities	(0.5)	(1.1)	(0.3)
Percentage of schemes' liabilities	(3.0%)	(9.0%)	(2.0%)

NOTES TO THE ACCOUNTS

28 Pensions continued

	2004 £m	2003 £m
Effect on reserves		
The analysis of reserves that would have arisen if FRS 17 had been fully implemented is as follows:		
Profit and loss reserve excluding pension liabilities	(1,045.9)	(850.9)
Pension liabilities included in the accounts	(6.0)	(7.7)
Profit and loss reserve as reported	(1,051.9)	(858.6)
SSAP 24 pension asset included	–	(1.0)
Pension liabilities relating to defined benefit pension schemes not included	(0.9)	(0.4)
Profit and loss reserve including pension liabilities	(1,052.8)	(860.0)

29 Contingent liabilities and guarantees

At 31 October 2004, there were contingent liabilities under counter indemnities given to the Group's bankers and other third parties in the normal course of business in respect of CAA and other similar bonds, leases for aircraft and spares and other guarantees amounting to £549.3m (2003: £649.4m).

The Group enters into foreign exchange contracts to hedge future foreign currency requirements. No liabilities are expected to arise on these contracts. In addition, the Company provides guarantees to certain of its subsidiary undertakings. No liabilities are expected to arise under these guarantees. The amounts outstanding in respect of these guarantees at 31 October 2004 was £149.8m (2003: £130.1m).

30 Related party transactions

During the period, MyTravel UK and MyTravel Northern Europe purchased hotel accommodation amounting to £1.4m (2003: £5.9m) from Tenerife Sol, a joint venture undertaking. At 31 October 2004, the outstanding balance payable to Tenerife Sol amounted to £0.1m (2003: £0.5m). In addition, Tenerife Sol made a short term loan to Hoteles Sunwing SA of €7.6m (£5.3m) (2003: £nil). This loan is repayable on 31 July 2005 and bears interest at three months EURIBOR.

MyTravel UK and MyTravel Northern Europe purchased hotel accommodation from Hotetur SL, its 50% joint venture undertaking, amounting to £20.7m (2003: £18.1m). The amount due to Hotetur at 31 October 2004 was £4.0m (2003: £1.3m). Mr J Jennings is a Director of Hotetur as nominee of the Group.

MyTravel UK and MyTravel Northern Europe also purchased hotel accommodation from Aqua Sol, an associated undertaking amounting to £11.2m (2003: £1.7m). At 31 October 2004 the outstanding balances payable to Aqua Sol amounted to £1.0m (2003: £0.3m).

The Group has management contracts with Hotetur in respect of the Group's interest in the Blue Bay Resorts and Airtours Beach Club ('ABC') properties. The Group earned management fees of £0.8m (2003: £1.1m) in respect of these agreements. The amount due from Hotetur in respect of these items at 31 October 2004 was £2.0m (2003: £1.0m). In addition to the above, Hotetur received, on behalf of MyTravel Hotels and Resorts division, an amount of £1.7m (2003: £1.2m) in respect of purchasing listing fees. A total of £3.0m was outstanding at 31 October 2004 (2003: £1.2m). Hotetur provided Airtours Resort Mallorca SL with management and administrative services and assisted in the implementation of a cost reduction programme. Fees due in respect of these items amounted to £1.5m (2003: £2.1m). The amount outstanding in respect of these items at 31 October 2004 was £nil (2003: £0.1m).

On 18 September 2001, the Group disposed of its interest in White Horse Mallorca Properties S.L. (WHMP) to Hotetur. At the date of disposal an amount of £63.4m was outstanding in respect of loans from Group companies to WHMP. On 24 September 2001, an amount of £18.0m plus outstanding interest was repaid in respect of these loans. Of the £45.4m outstanding at 30 September 2001, a further amount of £18.7m plus outstanding interest was repaid in November 2001. Of the remaining amount, €5.0m was capitalised in September 2004 and there is a loan of €25.1m (£17.4m) repayable in ten equal instalments commencing 1 October 2005, bearing interest at EURIBOR plus 1%. At 31 October 2004, £1.7m accrued interest was outstanding on this loan (2003: £0.9m). The balance of the debt is being amortised against future purchases of hotel accommodation over six years. At 31 October 2004, £8.1m was outstanding (2003: £8.4m).

For the period 1 October 2003 to 12 December 2003, Mr J Darlington was acting Chief Financial Officer of the Group and MyTravel Group plc. In respect of this period, MyTravel Group plc paid £95,000 to John Darlington Services Limited, a company controlled by Mr J Darlington, for the provision of these services.

31 Post balance sheet events

Since the balance sheet date the Company has agreed a consensual restructuring of its balance sheet (the "consensual restructuring") with its lenders, providers of ancillary facilities and bondholders. This would involve the conversion to equity of approximately £800m of unsecured debt and facilities and the provision of new five year committed facilities for the provision of bonding, letters of credit and guarantees. The details are as follows:

Conversion of debt to equity

Under the consensual restructuring, the claims of certain of the Group's financing creditors (the "converting creditors") and the bondholders against the Company and other members of the Group and certain third parties will be satisfied or released or, in some cases, transferred to other members of the Group and the Company will issue new shares to the Converting Creditors (or to such persons as they may nominate) and the bondholders. The new shares to be issued will be A ordinary shares or convertible shares.

13,067,067,264 new shares will be issued to the converting creditors and the bondholders pursuant to the consensual restructuring, which represents 96% of the number of ordinary, A ordinary and convertible shares in issue following completion of the consensual restructuring.

New bonding and letter of credit facilities

The providers of existing bonding and letter of credit facilities have agreed to make available to the Company a new bonding facility and a new letter of credit facility. These facilities are committed facilities expiring five years from the date the consensual restructuring is completed, initially at no material cost (interest or otherwise) to the Company. Pursuant to these facilities, the providers of these facilities will issue bonds, guarantees and letters of credit to guarantee to third parties the performance by the Company and its subsidiaries of their obligations. These facilities will be available for both regulatory and general corporate purposes of the Group. These facilities will ensure that the Company and its subsidiaries are able to obtain the bonding they require to meet the current requirements of their respective regulators and will provide support for new working capital facilities of the Group.

Effect of the consensual restructuring on the warrants

The Company has in issue 65,764,552 warrants entitling the holders to subscribe for up to 65,764,552 ordinary shares. 37,459,354 of these warrants will be listed when the consensual restructuring is completed and will then become exercisable.

Approvals

At an Extraordinary General Meeting of the Company held on 24 December 2004, a special resolution was passed authorising the Board to allot or agree to allot on a non-pre-emptive basis, during the period expiring on the date of the 2005 Annual General Meeting, up to an aggregate nominal amount of £130,670,672.64 of the unissued unclassified shares of 1p (being 13,067,067,264 shares). This authority is sufficient to cover the issue of new shares (to be designated as A ordinary shares or convertible shares on allotment) pursuant to the consensual restructuring. An ordinary resolution was passed authorising the Board to allot or agree to allot, during the period expiring on the date of the 2005 Annual General Meeting, up to a further aggregate nominal amount of £7,622,455.90 of the unissued unclassified shares of 1p (being 762,245,590 shares). This authority is sufficient to cover the issue of A ordinary shares on exercise of any options granted pursuant to the Management Incentive Plan adopted by the Board on 29 December 2004.

Bondholders also passed a resolution approving the consensual restructuring on 29 December 2004.

Conditions

Implementation of the consensual restructuring is conditional only on the agreement of the UK Listing Authority to admit the new shares to the Official List by not later than 31 March 2005.

NOTES TO THE ACCOUNTS

32 Principal subsidiary, joint venture and associated undertakings

At 31 October 2004 the Group's principal subsidiary, joint venture and associated undertakings were:

		Country of incorporation and operation	Proportion held by parent company (%)	Proportion held by the Group (%)
Tour operators	MyTravel Tour Operations Limited	England		100
	Airtours Holidays Limited	England		100
	Bridge Travel Service Limited	England		100
	Cresta Holidays Limited	England		100
	Direct Holidays plc	England		100
	Globetrotter Tour Production A/S	Denmark		100
	Panorama Holiday Group Limited	England		100
	MyTravel Canada Holidays Inc.	Canada		100
	Oy Tjareborg AB	Finland		100
	Sunquest Holidays Inc.	USA		100
	MyTravel Sweden AB	Sweden		100
	Ving Norge A/S	Norway		100
	Saga Solreiser A/S	Norway		100
	Travel Trend BV	Holland		100
Hotel operators	Hoteles Sunwing S.A.	Spain		100
	Tenerife Sol S.A.	Spain		50
	Sunwing Hotels Hellas S.A.	Greece		100
	Sunwing Hotels (Cyprus) Limited	Cyprus		100
	Servicios de Administracion y Operacion de Hoteles S.A. de CV	Mexico		100
	Hotetur Club S.L.	Spain		50
	Airtours Resort Mallorca S.L.	Spain		100
	Aqua Sol Hotels Limited	Cyprus		19.99
	Parkway Property Management France SAS	France		100
Airlines	MyTravel Airways Limited	England		100
	MyTravel Airways A/S	Denmark		100
Travel retailers	Going Places Leisure Travel Limited	England		100
Agency companies	MyTravel Vacances S.A.	France		100
	MyTravel Portugal – Agencia de Viagens S.A.	Portugal		100
	MyTravel Spain Incoming Services S.A.	Spain		100
	MyTravel Canarias Incoming Services S.A.	Spain		70
Insurance company	White Horse Insurance Ireland Limited	Ireland		100
Investment and/or holding companies	Airtours Resort Ownership España SL	Spain		100
	Blue Sea Investments Limited	England	100	
	Blue Sea Overseas Investments Limited	England		100
	The BTN Finance Company	England		50
	MyTravel Canada Holdings Inc.	Canada		100
	Parkway Holdings UK BV	Holland		100
	White Horse Holdings UK BV	Holland	100	
	MyTravel Holdings Northern Europe AB	Sweden		100
	Scandinavian Leisure Group Leasing A/S	Norway		100
	Sun International (UK) Limited	England		100
	MyTravel UK Limited	England	100	
	NALG Holdings	Ireland		100
	Parkway SA	Luxembourg		100
	MyTravel Northern Europe AB	Sweden		100
	Oy MyTravel Holdings Finland AB	Finland		100
	MyTravel Holdings Norway A/S	Norway		100
	MyTravel Holdings Denmark A/S	Denmark		100
	MyTravel Luxembourg Sarl	Luxembourg		100
	Parkway IPR Limited	England	100	
	MyTravel IPR Ireland Limited	Ireland		100
	MyTravel Nederland BV	Holland		100

INDEPENDENT AUDITORS' REPORT

To the members of MyTravel Group plc

We have audited the accounts of MyTravel Group plc for the 13 month period ended 31 October 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the related notes 1 to 32, the reconciliation of net cash flow to movement on net debt, the reconciliation of movements in shareholders' deficit and the statement of accounting policies. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the part of 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

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Directors' remuneration report. Our responsibility is to audit the accounts and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards. We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if 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 transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the 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 Directors' report and the other information contained in the Annual Report for the above period as described in the contents section including the unaudited part of the Directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 accounts and the part of the Directors' remuneration report described as having been 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 accounts and the part of the Directors' remuneration report described as having been audited.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 October 2004 and of the loss of the Group for the 13 month period then ended; and the accounts and part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
29 December 2004

FIVE YEAR REVIEW

	13 months to 31 October 2004 £m	Years ended 30 September (restated*) 2003 £m	2002 £m	2001 £m	2000 £m
Profit and loss account					
Group turnover	3,462.8	4,190.2	4,379.2	5,050.8	3,929.9
Operating (loss)/profit pre-goodwill and exceptional items	(17.5)	(358.3)	(20.4)	113.2	58.7
(Loss)/profit on ordinary activities before tax, goodwill and exceptional items	(82.4)	(411.3)	(11.9)	110.8	52.0
(Loss)/profit on ordinary activities before tax	(190.3)	(910.9)	(72.8)	62.3	186.6
Tax charge/(credit) on (loss)/profit on ordinary activities	13.0	(2.8)	(29.5)	24.7	18.3
(Loss)/profit for the financial period	(203.6)	(913.2)	(60.1)	17.4	153.2
Dividends	–	–	9.8	46.6	43.9
Transfer (from)/to reserves	(203.6)	(913.2)	(69.9)	(29.2)	109.3
Balance sheet					
Goodwill	146.2	277.8	490.4	540.2	534.8
Tangible fixed assets	302.8	367.3	489.6	431.1	513.5
Investments	51.1	50.9	81.3	80.3	49.6
Cash and deposits	305.2	254.9	292.7	378.6	793.3
Stocks	6.7	11.3	14.0	13.3	17.2
Debtors	386.2	572.3	724.2	772.1	665.2
Creditors	1,950.8	2,103.1	1,614.1	1,673.5	1,979.8
Provisions for liabilities and charges	126.4	104.3	93.6	90.6	109.5
Net (liabilities)/assets	(879.0)	(672.9)	384.5	451.5	484.3
Statistics					
Basic (loss)/earnings per share	(37.88)p	(185.51)p	(12.22)p	3.55p	32.18p
Diluted (loss)/earnings per share	(37.88)p	(185.51)p	(12.22)p	3.53p	30.79p
Basic (loss)/earnings per share pre-goodwill and exceptional items	(17.75)p	(85.96)p	(1.08)p	13.45p	5.32p
Diluted (loss)/earnings per share pre-goodwill and exceptional items	(17.75)p	(85.96)p	(1.08)p	13.38p	7.38p
Dividend per share	–	–	2.00p	9.50p	9.00p
Net (liabilities)/assets per share	(161.43)p	(135.91)p	78.14p	92.33p	99.78p
Ratios					
Dividend cover	N/A	N/A	(6.11)	0.37	3.58
Dividend cover pre-goodwill and exceptional items	N/A	N/A	(0.54)	1.42	0.59
Share data					
Number of shares in issue – period end	544.5m	494.9m	494.9m	492.7m	491.2m
– average	537.5m	492.2m	492.1m	490.2m	476.4m
Diluted number of shares	537.5m	492.2m	492.1m	492.3m	546.6m
Share price					
High	21.50p	78.25p	283.50p	335.50p	430.00p
Low	4.05p	8.00p	81.50p	110.00p	202.00p
Average	10.07p	19.75p	180.00p	255.41p	308.63p

*Restated for adoption of UITF 38 – Accounting for ESOP Trusts (see note 12).

APPENDIX – PRO FORMA FINANCIAL INFORMATION

Group profit and loss account

	note	Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
Turnover: Group and share of joint ventures	2(a)		
Continuing operations		3,283.1	3,827.6
Discontinued operations		–	397.7
		3,283.1	4,225.3
Less: share of joint ventures' turnover			
Continuing operations		(33.6)	(35.1)
Group turnover		3,249.5	4,190.2
Operating profit/(loss) before goodwill amortisation and exceptional operating items	2(b)		
Continuing operations		1.2	(329.5)
Discontinued operations		–	(36.1)
		1.2	(365.6)
Exceptional operating items	2(c)	(58.8)	(346.9)
Goodwill amortisation	2(d)	(11.9)	(25.6)
Operating loss		(69.5)	(738.1)
Continuing operations		(69.5)	(619.1)
Discontinued operations		–	(119.0)
		(69.5)	(738.1)
Income from interests in joint ventures and associates before goodwill amortisation and exceptional operating items	2(b)	7.1	7.3
Exceptional operating items	2(c)	(4.0)	(27.0)
Goodwill amortisation	2(d)	(0.7)	(1.3)
Income from interests in joint ventures and associates		2.4	(21.0)
Group and share of joint ventures' and associates' operating loss	2(b)	(67.1)	(759.1)
Exceptional items			
Profit/(loss) on sale of subsidiary undertakings	2(e)		
– continuing operations		10.9	5.8
– discontinued operations		–	(81.4)
(Loss)/profit on sale of tangible fixed assets	2(f)		
– continuing operations		(2.9)	1.9
– discontinued operations		–	(0.2)
Profit on sale of joint venture undertaking		0.1	–
Loss on termination of operations	2(g)		
– continuing operations		(16.7)	(1.1)
– discontinued operations		(0.5)	(1.3)
Loss on ordinary activities before finance charges		(76.2)	(835.4)
Finance charges (net)	2(h)		
Group		(58.0)	(51.9)
Exceptional finance charges		(12.8)	(22.5)
Joint ventures and associates		(2.4)	(1.1)
Loss on ordinary activities before tax	2(i)	(149.4)	(910.9)
Tax on loss on ordinary activities	3	(12.0)	2.8
Loss on ordinary activities after tax		(161.4)	(908.1)
Equity minority interests		(0.1)	(0.4)
Non-equity minority interests		–	(4.7)
Loss for the period – transfer from reserves		(161.5)	(913.2)

APPENDIX – PRO FORMA FINANCIAL INFORMATION

Group balance sheet

	Unaudited As at 30 September 2004 £m	Audited Restated* As at 30 September 2003 £m
Fixed assets		
Intangible assets – goodwill	146.5	277.8
Tangible assets	305.8	367.3
Joint venture undertakings		
Share of gross assets	88.5	84.6
Share of gross liabilities	(61.7)	(59.2)
Goodwill	11.1	11.7
	37.9	37.1
Investments in associated undertakings	10.1	13.7
Other investments	–	0.1
Total fixed assets	500.3	696.0
Current assets		
Stocks	8.8	11.3
Debtors: amounts falling due within one year	342.2	431.9
Debtors: amounts falling due after one year	104.0	140.4
Cash and deposits	331.9	254.9
	786.9	838.5
Creditors: amounts falling due within one year	(1,107.6)	(1,230.6)
Net current liabilities	(320.7)	(392.1)
Total assets less current liabilities	179.6	303.9
Creditors: amounts falling due after one year		
Convertible debt	(216.4)	(221.6)
Other creditors	(684.3)	(650.9)
	(900.7)	(872.5)
Provisions for liabilities and charges	(119.4)	(104.3)
Net liabilities	(840.5)	(672.9)
Capital and reserves		
Called up share capital	54.4	49.5
Reserves	(895.9)	(723.5)
Own shares	(0.3)	(0.3)
Equity shareholders' deficit	(841.8)	(674.3)
Equity minority interests	1.3	1.4
	(840.5)	(672.9)

*Restated for adoption of UITF 38 – Accounting for ESOP Trusts. £0.3m of own shares held in trust has been reclassified from investments to capital and reserves.

APPENDIX – NOTES TO THE PRO FORMA FINANCIAL INFORMATION

1 Basis of preparation

The pro forma financial information has been prepared using accounting policies stated in the Company's report and accounts for the 13 months ended 31 October 2004.

The financial information in this statement relating to the 12 months ended 30 September 2004 is unaudited and does not constitute full statutory accounts within the meaning of section 240 of the Companies Act 1985. The results shown for the year ended 30 September 2003 have been derived from the full report and accounts which received an unqualified auditors' report and did not contain any statements under section 237(2) or (3) of the Companies Act 1985, and have been delivered to the Registrar of Companies.

2 Segmental information

		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(a) Turnover			
UK		2,057.8	2,340.5
Other Europe	Northern Europe	805.6	886.4
North America		386.1	565.6
Group continuing		3,249.5	3,792.5
Discontinued	Other Europe – Germany	–	397.7
Group		3,249.5	4,190.2
Joint ventures		33.6	35.1
Group and share of joint ventures		3,283.1	4,225.3

		Pre-goodwill and exceptional operating items		Post-goodwill and exceptional operating items	
		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m	Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(b) Operating profit/(loss)					
UK		(59.0)	(325.4)	(122.8)	(480.9)
Other Europe	Northern Europe	46.2	(4.0)	45.5	(37.0)
North America		14.0	(0.1)	7.8	(101.2)
Group continuing		1.2	(329.5)	(69.5)	(619.1)
Discontinued	Other Europe – Germany	–	(36.1)	–	(119.0)
Group		1.2	(365.6)	(69.5)	(738.1)
Joint ventures		5.7	6.2	4.8	(4.3)
Associates		1.4	1.1	(2.4)	(16.7)
Group and share of joint ventures and associates		8.3	(358.3)	(67.1)	(759.1)

				Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(c) Exceptional operating items					
UK		balance sheet restructuring	(i)	(3.9)	–
		operational restructuring	(ii)	(51.1)	–
		other advisory fees	(iii)	(4.1)	(10.1)
		balance sheet review	(iv)	2.2	(135.4)
		restructuring of aircraft leases	(v)	(1.7)	–
		directors' settlements	(vi)	–	(4.5)
Other Europe	Northern Europe	balance sheet review	(iv)	(0.2)	(32.2)
North America		balance sheet review	(iv)	–	(86.3)
Group continuing				(58.8)	(268.5)
Discontinued	Other Europe – Germany	balance sheet review	(iv)	–	(78.4)
Group				(58.8)	(346.9)
Joint ventures		operational restructuring	(ii)	(0.2)	–
		balance sheet review	(iv)	–	(9.5)
Associates		balance sheet review	(iv)	(3.8)	(17.5)
				(62.8)	(373.9)

(i) Balance sheet restructuring represents the costs incurred in respect of preparatory work relating to the proposed refinancing and restructuring of the Group.
(ii) Operational restructuring represents redundancy and other costs incurred in reorganising the Group's UK businesses.
(iii) Other advisory fees represent costs incurred in respect of the 2003 refinancing of the Group.
(iv) The balance sheet review charges which total £1.8m (2003: £359.3m) represent adjustments to the carrying value of goodwill and certain other assets. In the period to 30 September 2004, additional provisions of £5.7m, including £1.5m in respect of goodwill previously written off to reserves, have been made, and provisions of £3.9m made last year have been released on the basis of improved information.
(v) This represents the net cost of the restructuring of certain aircraft leases.
(vi) Directors' settlements represent the costs in 2003 of terminating the contracts of certain former Directors.

APPENDIX – NOTES TO THE PRO FORMA FINANCIAL INFORMATION

2 **Segmental information** continued		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(d) Goodwill amortisation			
UK		(5.2)	(5.5)
Other Europe	Northern Europe	(0.5)	(0.8)
North America		(6.2)	(14.8)
Group continuing		(11.9)	(21.1)
Discontinued	Other Europe – Germany	–	(4.5)
Group		(11.9)	(25.6)
Joint ventures		(0.7)	(1.0)
Associates		–	(0.3)
Group and share of joint ventures and associates		(12.6)	(26.9)

		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(e) Profit/(loss) on sale of subsidiary undertakings			
UK		0.8	5.8
Other Europe	Northern Europe	(0.3)	–
North America		10.4	–
Group continuing		10.9	5.8
Discontinued	Other Europe – Germany	–	(81.4)
Group		10.9	(75.6)

		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(f) (Loss)/profit on sale of tangible fixed assets			
UK		(3.4)	0.6
Other Europe	Northern Europe	0.5	1.3
North America		–	–
Group continuing		(2.9)	1.9
Discontinued	Other Europe – Other	–	(0.2)
Group		(2.9)	1.7

		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(g) Loss on termination of operations			
UK	continuing	(16.7)	(1.1)
Other Europe	discontinued	(0.5)	(1.3)
Group		(17.2)	(2.4)

On 16 April 2004, the Group announced agreed arrangements with Louis Limited, a cruise and hotel group listed on the Cyprus Stock Exchange, under which Louis took over operation of three cruise ships. The loss on termination of the Group's cruise business at 30 September 2004 amounted to £16.8m.

Also included within UK terminated operations are the costs of exiting of the Group from Vacation Ownership operations. During the period, the Group recorded £0.1m of profit (2003: loss of £1.1m).

In Other Europe, the Group announced in 2000 the closure of its Belgian charter airline operations and closed its tour operations in France and Belgium. During 2004, the Group incurred £0.5m of costs relating to this activity (2003: £1.3m).

There was no material tax effect in respect of these items.

2 **Segmental information** continued		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(h) Finance charges (net)			
UK		(57.5)	(35.1)
Other Europe	Northern Europe	3.7	3.2
North America		(4.2)	(12.3)
Group continuing		(58.0)	(44.2)
Discontinued	Other Europe – Germany	–	(7.7)
Group		(58.0)	(51.9)
Exceptional finance charges		(12.8)	(22.5)
Joint ventures		(1.7)	(1.1)
Associates		(0.7)	–
Joint ventures and associates		(2.4)	(1.1)
Total finance charges (net)		(73.2)	(75.5)

The exceptional finance charges relate to costs incurred in the refinancing and restructuring of the Group.

Finance charges relating to discontinued operations in 2003 represent the costs of centrally funded working capital together with local external charges.

		Pre-goodwill and exceptional items		Post-goodwill and exceptional items	
		Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m	Unaudited 12 months to 30 September 2004 £m	Audited 12 months to 30 September 2003 £m
(i) (Loss)/profit on ordinary activities before tax					
UK		(116.5)	(360.5)	(212.4)	(533.2)
Other Europe	Northern Europe	49.9	(0.8)	49.4	(32.5)
North America		9.8	(12.4)	14.0	(113.5)
Group continuing		(56.8)	(373.7)	(149.0)	(679.2)
Discontinued	Other Europe – Germany	–	(43.8)	–	(208.1)
	– Other	–	–	(0.5)	(1.5)
Group		(56.8)	(417.5)	(149.5)	(888.8)
Joint ventures		4.0	5.1	3.2	(5.4)
Associates		0.7	1.1	(3.1)	(16.7)
Group and share of joint ventures and associates		(52.1)	(411.3)	(149.4)	(910.9)

3 Tax on loss on ordinary activities

The charge in the period of £12.0m (2003: credit of £2.8m) relates to taxation in certain overseas businesses, which cannot be relieved against losses.

INDEPENDENT LIMITED REVIEW REPORT TO MYTRAVEL GROUP PLC

Introduction

We have been instructed by the Company to perform a limited review on the pro forma financial information for the 12 months ended 30 September 2004 which comprises the profit and loss account, the balance sheet and related notes 1 to 3. We have read the other information contained in the Annual Report relating to the pro forma statement and considered whether it contains any apparent misstatements or material inconsistencies with the pro forma financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board and under the terms of our engagement letter with the Company. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our limited review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The pro forma statement, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the pro forma statement in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed. The pro forma statement has been produced by the Directors pursuant to paragraph 12.26 of the Listing Rules of the Financial Services Authority.

Review work performed

We conducted our limited review having regard to the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. The limited review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. In addition, our limited review was not designed to, and therefore would not necessarily, reveal any irregularities (including fraud), weaknesses in internal controls, errors in accounting records, misstatements of management estimates, or other matters relating to the financial information which might have been revealed if we had conducted an audit in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the financial information.

Limited review conclusion

On the basis of our limited review we are not aware of any material modifications that should be made to the financial information as presented for the 12 months ended 30 September 2004.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Manchester
29 December 2004

SHAREHOLDER INFORMATION

Analysis of shareholders

At 31 October 2004 there were 20,409 shareholders registered compared with 18,971 at 30 September 2003.

Category	Number of holders	Shares held
Individuals	20,087	345,115,285
Life/Insurance funds	16	1,700,311
Pension funds	67	43,692,220
Unit trusts	12	7,407,589
Investment trusts	6	6,607,091
Overseas funds	151	112,748,135
Other	70	27,190,505
	20,409	544,461,136

Shareholders' benefits

Concessionary discounts
As a shareholder you have access to the Shareholder Premier Line and the many benefits and discounts this brings when you come to plan your travel arrangements.

First, you will be entitled to receive a discount of 10% off the published brochure price of any MyTravel holiday (including Airtours Holidays, Tradewinds, Bridge Travel, Cresta, Panorama, Aspro, Manos and Direct Holidays).

In addition, you will be able to take advantage of the following offers provided your booking is made at least 28 days prior to departure. When you are flying on a MyTravel Airways flight, the pre-bookable seats service will be offered to you free of charge, subject to availability. For each booking you make you will be presented with a free bottle of champagne to enjoy during your outbound flight. Unfortunately, if you are travelling with any other airline we are unable to offer these benefits.

These benefits and discounts are available to you all year round and can only be arranged by calling the Shareholder Premier Line on 0870 161 6891 on Monday to Saturday from 09:00 to 17:30 hours.

In all cases shareholders will need to quote their name and shareholder number as shown on their share certificate at the time of booking. Please note that these offers and discounts cannot be taken in conjunction with any other offer or promotion and the shareholder must travel to take advantage of the offers.

Shareholder enquiries
The Company's share register is maintained by Lloyds TSB Registrars Scotland.

Any queries about the administration of shareholdings, such as change of address, change of ownership, or dividend payments should be directed to Lloyds TSB Registrars, The Causeway, Worthing, W. Sussex BN99 6DA, or through their shareholder telephone helpline on 0870 601 5366.

CORPORATE ADVISORS

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The Royal Bank of Scotland plc
Corporate & Institutional Banking
135 Bishopsgate
London EC2M 3UR

Barclays Bank PLC
5 The North Colonade
Canary Wharf
London E14 4BB

Stockbrokers

Credit Suisse First Boston (Europe) Limited
1 Cabot Square
London E14 4QJ

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Brunswick Group LLP
16 Lincoln's Inn Fields
London WC2A 3ED

Debt advisors

Tricorn Partners LLP
27 Knightsbridge
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Merchant in collaboration with In Unison Design. Printed by H.H. Associates.

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Registered Number: 742748
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