MyTravel Group plc

Company number 742748

Annual Report & Accounts 2002

Arrangements for other charitable support are dealt with locally by management of the relevant business unit. The Group made charitable donations of £637,795 in the year to 30 September 2002. 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 4DF.

The Euro In February 2002, national currencies ceased to be legal tender for those countries in the 'Eurozone', which had an impact on many areas of the Group's activities. In particular, 17 business units operate from within the 'Eurozone'. As a result of the procedures previously established to deal with this event, for business units operating both within and outside of the 'Eurozone', we were able to ensure that a smooth transition took place and that all affected units maintained full compliance with statutory requirements throughout.

Substantial shareholdings At 21 November 2002, 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
David Crossland (Chairman)	50,000,000	10.103
Morgan Stanley Securities Limited	37,417,059	7.561
Meditor Capital Management Limited	22,888,500	4.625

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 the media of employee newsletters and regular news bulletins.

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 June 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. The price of each share option is determined by taking the average mid-market price over the three business days preceding any offer and this price can then be discounted by up to 20% solely at the Board's discretion. Options may normally be exercised during the period of six months after the completion of the savings contract.

The Group is in the process of establishing a special negotiating body as part of the formation of a European Works Council.

Annual General Meeting The notice convening the Annual General Meeting of the Company to be held in March 2003 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the meeting.

Auditors During the year, Arthur Andersen resigned as auditors and Deloitte & Touche were appointed by the Directors to fill the casual vacancy. ~~The Directors will place a resolution before the Annual General Meeting to reappoint Deloitte & Touche as auditors for the ensuing year~~ GM

By order of the Board
G J McMahon
Secretary
28 November 2002

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

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Summary financial information

	2002	Restated 2001
Group turnover† (£m)	**4,413.3**	5,078.9
Operating (loss)/profit* (£m)	**(20.4)**	113.2
(Loss)/profit before tax* (£m)	**(11.9)**	110.8
(Loss)/earnings per share, basic* (p)	**(1.08)**	13.45
(Loss)/earnings per share, diluted* (p)	**(1.08)**	13.38
Dividend per share (p)	**2.00**	9.50

† Group and share of joint ventures' turnover.
* Before goodwill and exceptional items.

Chairman's statement

David Crossland
Chairman

The year to 30 September 2002 was very disappointing for the MyTravel Group. Difficult trading conditions following the events of 11 September, a poor performance in the UK, together with a number of significant accounting issues identified in the year have led to very disappointing reported results. The Group's performance has been unacceptable.

On 17 October 2002, Peter McHugh was appointed Chief Executive Officer and Philip Jansen assumed responsibility as Chief Operating Officer. Since then, we have secured the support of our banks and extended our committed facilities, which are sufficient for our ongoing requirements, until 31 December 2003. Peter and Philip are now undertaking a thorough review of the Group's activities in order to determine the future shape of the business whilst driving profitability and returns to shareholders.

Current booking levels in the UK are encouraging and the Board has a target to recover in the current year approximately two thirds of the reduction in the 2002 UK operating profit. The Northern European business is expected to show significant recovery, and in Germany, losses are expected to reduce despite continuing difficult market conditions. In North America, significant profit growth is expected to resume.

The outlook for the UK business reflects our success in securing additional share of the early booking market. This increases our utilisation of committed capacity and achieves better selling prices. In the UK, Airtours Holidays' summer 03 bookings constitute 46% of total committed bed stock compared with 23% for summer 02 and 35% for summer 01. Winter bookings as a percentage of committed bed stock sold have remained steady at 42% compared with 43% for winter 01/02 and 40% for winter 00/01.

In addition, margins will benefit from the increase in UK in-house distribution. As at mid-November, 90% of UK summer 03 sales had been distributed through our own retailers compared with 66% for summer 02 and 71% for winter 02/03. It is anticipated that the level of in-house distribution will reduce over the rest of the year.

It was with regret that MyTravel announced on 8 October and 28 November 2002 respectively, that by mutual agreement, Tim Byrne, Chief Executive Officer, and David Jardine, Group Finance Director, would be leaving the Board. Following the disbanding of the Global Development Division, Richard Carrick, its chief executive, also left the Board on 28 November. The Board thanks them all for the contribution they have made to the Group over the years.

Non-executive director, Kazia Kantor, has taken over as Group Finance Director from 28 November 2002.

Basic loss per share before exceptional items and goodwill was 1.08p in 2002 compared with a restated earnings per share of 13.45p in 2001. Diluted loss per share on the same basis was 1.08p compared with restated earnings of 13.38p in the previous year. The Board is recommending that no final dividend be paid. As a result, the total dividend for the year will be 2.00p compared with 9.50p last year.

MyTravel has gone through the worst year in its history. However, the level of bookings we are achieving this year gives me reason for optimism. Peter McHugh and his team are getting to grips with the underlying issues and now, with the continuing support of our banks, I believe we have a sound basis on which to move forward.

David Crossland

David Crossland
Chairman
28 November 2002

Chief Executive's review

Peter McHugh
Group Chief Executive

The year ended 30 September 2002 was a difficult one for the Group. Trading was badly affected by the changed booking patterns that followed the events of 11 September and by a weak performance in the UK. The Group reported an operating profit before e-commerce costs, exceptional items and goodwill, but including our share from joint ventures and associates, of £2.8m (2001 restated: £128.4m). In addition we had a number of significant accounting issues that have been dealt with in our results.

Financing
The Group has agreed with the lenders of its existing £250m revolving facility, which was due to mature on 31 March 2003, that the facility will be extended on revised terms to 31 December 2003. The revised terms include a margin of 2% over LIBOR on drawings up to £125m and of 3% over LIBOR on drawings in excess of that amount. The revised terms include a restriction on the payment of dividends by the Group. As a result the Board does not expect to pay a dividend in respect of the year ending 30 September 2003.

We have also secured commitments from our banks, which provide in aggregate £196m of credit support and guarantee facilities, to continue to provide these facilities until 31 December 2003.

Earlier this year we entered into a £400m committed bonding facility, which runs to March 2005, and which provides bonding capacity to support our business. The committed facilities are sufficient for our ongoing requirements until 31 December 2003.

The incremental cost of refinancing these facilities in the current year is estimated to be £12.5m.

Management initiatives
We are conducting a comprehensive review of commercial activities and financial processes.

The review of financial processes has involved a detailed examination of accounting policies and practices in the Group and has resulted in changes which are included in these financial statements.

I, together with Philip Jansen, will lead a strategic review with the objective of determining the future shape of the Group, including its long term financing. Kazia Kantor will lead a review of accounting systems and controls.

In addition we are reviewing all our business processes in order to ensure that we have the proper information flow to manage the business effectively and structures that will allow all levels of management to take decisions and actions quickly.

We will also establish a formal process for continually reviewing costs in all our Group businesses.

Whilst these reviews are taking place, we have put in place stringent cash control measures including strict controls on capital expenditure.

Current bookings
Overall charter bookings for winter 02/03 are at 98% of the prior year with selling prices 6% ahead year on year. For summer 03, bookings for the Group are 40% ahead of the prior year, with selling prices running 5% behind.

Bookings in our UK charter businesses for winter 02/03 are 7% down year on year, reflecting weak market conditions, but with selling prices in line with last year. For summer 03, bookings in the UK are currently 31% ahead of the prior year (42% including promotional bookings) with selling prices 2% up (5% down including promotional bookings). These statistics reflect the retail sales campaign undertaken in August and September to stimulate early demand and reduce exposure to the lates market. The retail campaigns included a number of attractive customer propositions, including a deferred deposit offer. Collection of these deposits exceeded our internal forecasts with £25m received from 86% of customers. Only 4% of our brochure customers have cancelled their bookings and this percentage is well within our expectations based on past experience.

Recent bookings in our specialist companies have been temporarily affected following a decline in support from some third party distributors which we expect to be corrected when we return to a more normal trading environment.

In our Northern European businesses, bookings for winter are currently at 91% of the prior year and average selling prices are 4% ahead. The lower bookings partly reflect reductions in capacity as we manage the business through the weak market conditions. For summer 03, bookings are 22% ahead of the prior year and average selling prices are 3% ahead.

In Germany, bookings for winter 02/03 are running 44% ahead of the prior year with selling prices 11% down. The increased bookings partly reflect the planned increase in capacity together with a revised proposition to the customer. The reduction in the average selling price is in part due to the mix of bookings for winter where there has been a shift towards shorter duration holidays. Summer 03 brochures have only recently been launched in Germany, but early indications are that both bookings and average selling prices are ahead year on year.

Charter bookings in our North American operations for winter 02/03 are currently 49% ahead of the prior year and selling prices are 23% ahead. The increase in bookings partly reflects increased capacity following the cuts made last year and partly a return to more normal booking patterns. Summer 03 brochures have not yet been launched.

Bookings in our leisure travel businesses in the US are strong, in particular within our Cruise and Auto divisions where bookings are 9% and 83% ahead of the prior year respectively.

MyTravelLite, our low fares airline which commenced flying on 1 October 2002, is performing in line with our expectations.

Summary

The results included within these financial statements are extremely poor. We have secured our financing for 2003 and current trading continues to be significantly ahead of last year. I expect the Group to move back to a more consistent performance over the current year. With Philip Jansen, our Chief Operating Officer, I will undertake a full strategic review to ensure the Group is in the best shape possible for the future. We will maintain a tight grip on financial processes and controls going forward.

I want to extend my appreciation to our loyal customers and to our 25,000 employees worldwide who have acted in a highly professional manner during this difficult period.

Peter McHugh
Group Chief Executive
28 November 2002

Operational and financial review

Overview of Group results
Turnover, including our share from joint ventures and associates was £4,413.3m (2001 restated: £5,078.9m). The operating loss in the year, before exceptional items and goodwill, was £20.4m (2001 restated: profit of £113.2m). Of the £133.6m reduction year on year, £101.8m relates to the UK businesses, £27.2m to businesses in Scandinavia and The Netherlands and £5.7m to Germany. The North American result was £0.1m lower than the restated prior year, whereas income from our joint ventures and associates increased in the year by £1.2m. Included in these results are e-commerce costs of £23.2m (2001: £15.2m).

Net exceptional costs in the year amounted to £28.4m (2001: £16.7m). The main elements within this figure are £26.0m of accounting errors from earlier years in the UK, further restructuring costs in Europe of £5.8m, impairment of shares held for the TSI incentive plan of £2.1m, and additional losses and provisions within our Vacation Ownership division of £4.3m. These have been partially offset by a £9.6m profit on the disposal of the Eurosites camping businesses.

Goodwill amortisation in the period amounted to £32.5m (2001: £31.8m).

Net finance income was £8.5m (2001: net finance charges of £2.4m). The improvement year on year largely reflects a £9.3m foreign exchange gain arising on the transfer of three aircraft from operating leases to finance leases during the year, together with a £4.9m profit on the buy back of Convertible Bonds.

Taxation
The tax in the year on the loss on ordinary activities is a credit of £29.5m (2001 restated: charge of £24.7m). In particular the Group benefited from a prior year credit of £23.2m relating to the agreement of various overseas tax liabilities below the level previously provided.

Earnings and dividends
Basic loss per share before exceptional items and goodwill was 1.08p (2001 restated: earnings per share 13.45p). Diluted loss per share on the same basis was 1.08p (2001 restated: earnings per share 13.38p).

The Board is recommending that no final dividend be paid. As a result, the total dividend for the year will be 2.00p (2001: 9.50p).

Cash balance and cash flow
Cash and deposits at 30 September 2002 amounted to £292.7m (2001: £378.6m) including restricted funds of £93.4m (2001: £95.3m). The major cash outflows during the year included £14.3m of loan repayments; £45.0m for the repurchase of Convertible Bonds; £70.1m on the purchase of tangible fixed assets; £26.7m of lease capital and interest payments; and £62.6m for equity and preference dividends. Inflows in the period included £29.9m of proceeds from the sale of the Eurosites business; £30.1m from the sale of fixed assets; and £18.7m of loan repayments from Hotetur.

The inflow from working capital and the movement on provisions of £7.7m reflects significantly improved working capital management.

The accounting adjustments and write-offs in the Group accounts have not had any material cash impact.

Accounting matters
Following the year end the Board identified a number of concerns regarding the quality of Group financial reporting, the use of subjective judgements in compiling accounts and the appropriateness of certain accounting policies. In consequence the Board instigated an investigation to address these concerns. This work has been completed and has resulted in the actions described below.

Accounting policy changes
The Board concluded that our policies on revenue recognition in the retail business and cost deferral in the retail and tour operating businesses should be moved onto a more appropriate and conservative basis.

Under our previous policy income in our retail business was recognised at the time of the booking of a holiday. Now income recognition is deferred to the final payment date for sales of third party leisure travel products and to the departure date for sales of the Group's leisure travel products. The previously announced change of policy on income recognition (principally income relating to insurance policies) has been subsumed within this wider policy change. All indirect selling costs relating to future seasons are now being charged as incurred.

The impact on the financial statements of the above changes in policy was to reduce operating profit by £20.3m (2001: £19.0m). A further consequence of this change in policy will be to defer profits into the second half of each financial year. The prior year accounts have been restated to reflect these changes in accounting policy, together with the effect of compliance with Financial Reporting Standard 19 as explained in detail in note 11.

Accounting adjustments

The investigation also identified problems which had arisen as a result of the establishment of a new accounting centre in Rochdale. The centre has experienced serious control failures and as a result there was inaccurate reporting of financial information. In addition, a number of accounting errors were identified including some that were cumulative over several years.

The results of the year ended 30 September 2002 were affected by all these accounting items and by the Board's desire to adopt a more conservative approach to the preparation of the accounts.

The cumulative errors from prior years which arose from misallocations of costs between seasons and years, and differences in intercompany accounts, amounting in total to £26.0m, have been charged in these results as exceptional items. All other errors and the financial impact of adopting a more conservative approach have been charged against operating profit. In addition we changed the treatment of the cost of guaranteed accommodation to bring it in line with our accounting policies relating to the utilisation of aircraft seats and cruise berths, and applied a consistent approach to the application of depreciation rates across the Group. The effect of these changes resulted in a beneficial impact on the results of £10.4m.

The risk management process that had been put in place to control the establishment of the new accounting centre, and the migration from old legacy systems used in the operating companies onto the new centralised system, did not operate properly and did not give early warning of control failures. Moreover the operational control over certain accounting records at the Rochdale accounting centre was not sufficiently robust. The new Group management team has put measures in place to remedy the position including tighter financial management of the regular accounting processes and new controls and increased monitoring by Group Internal Audit. In addition, our external auditors have been instructed to review the processes and controls in place at the Rochdale accounting centre and, in conjunction with management, develop an action plan of further improvements for implementation in the next few months.

Treasury policies

The Board has established conservative 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.

I 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 commitment. Hedging is put in place using forward contracts and options.

The Group's net assets in currencies other than sterling were hedged throughout the year to reduce the effect of currency movements on the Group's sterling balance sheet. The Group's policy is to minimise this effect primarily through matching the currency assets with centrally held currency liabilities by using currency foreign exchange contracts and debt. The objective is to maintain a balanced portfolio of net assets by currency. Details of the currency analysis of financial assets and liabilities can be seen in note 21. In addition, the Group selectively hedges its expected future trading cash flows up to 12 months ahead, primarily using forward contracts. However, due to a lack of availability of foreign exchange facilities, the Group has currently curtailed this hedging programme. It is management's intention to recommence this programme when appropriate foreign exchange facilities become available.

II 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. The proportion of gross debt that is fixed or hedged is higher in the near term than in the longer term, with the aim of reducing the volatility of short term interest costs whilst maintaining the opportunity to benefit from movements in longer term rates. At the year 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 92% at a blended rate of 6.1%. The gross cash position was fully floating. Details of the interest rate analysis can be seen in note 21.

III 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. Hedging is put in place using fuel commodity swaps.

IV 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 21 only 5.5% of the Group's total borrowings at the year end will mature by 30 September 2003, 71.0% will mature in more than one year but less than five and 23.5% will mature in more than five years.

Segmental review of results
UK – continuing
Turnover from our UK businesses fell by 7% in the year to £2,473.4m (2001 restated: £2,661.6m). The poor performance in the UK stemmed from a late launch of the summer 2002 brochures and a weak selling proposition at the start of the season, compounded by deferred booking patterns arising from the events of 11 September. Furthermore, the anticipated recovery in demand in the latter part of the year did not fully materialise which led to a poor performance in the lates market, which in turn represented a disproportionately high percentage of turnover for the year as a whole.

Operating loss before exceptional items and goodwill was £24.1m (2001 restated: profit of £77.7m). The result includes a £13.4m loss due to the accounting policy changes for revenue recognition and cost deferrals (2001: £14.7m) and £14.6m of costs associated with our e-commerce initiatives (2001: £8.4m). The result also includes some increase in operating costs within the UK and some duplicated costs associated with the shared service centre in Rochdale.

Net exceptional costs in the year amounted to £20.2m (2001: profit of £0.2m). This includes a charge of £26.0m, reflecting the cumulative effect over several years of accounting errors in the UK balance sheet.

Other items within the net exceptional costs of £20.2m include additional losses and provisions in our Vacation Ownership operations of £4.3m as we continue our planned withdrawal from this segment, and £2.1m impairment of shares held for the TSI incentive plan. These have been offset by £9.6m of profit on the disposal of our non-core camping division Eurosites, and £2.6m of net profit on the disposal of other fixed assets.

Other Europe
The Other Europe segment consists of our businesses in Northern Europe (Scandinavia and The Netherlands) and our businesses in Germany. To assist in understanding, however, we have shown the German results separately.

Northern Europe – continuing
Turnover from our Northern European operations amounted to £914.0m (2001: £1,032.3m), a reduction of £118.3m, or 11.5% year on year. This decline reflects a 19% reduction in capacity on sale in all countries as a result of anticipated poor demand, offset by an increase in average selling prices. As a result of the weak currency and poor economic conditions in Northern Europe, capacity cuts had been planned prior to the events of 11 September 2001. However, demand for the winter season was severely affected following 11 September and further cuts were made as a consequence.

Operating profit before exceptional items and goodwill was £9.3m (2001 restated: £33.9m). The reduction in profitability partly reflects the poor demand referred to above. It also reflects reduced margins on holidays sold due to the later booking pattern experienced and the poor conditions in the market place, which were exacerbated by unusually good weather in the region prompting people to take domestic holidays rather than travel abroad. In turn this led to heavy discounting of prices which, though still higher than on average in the prior year, were not high enough to cover the additional costs and therefore to maintain margins.

The results also reflect the changes in accounting policy amounting to a reduction in profit of £1.1m (2001 restated: £0.8m), together with an increase in e-commerce costs of £2.9m to £7.9m (2001: £5.0m).

Exceptional costs in the year amounted to £5.3m (2001: £3.6m) and reflect reorganisation and restructuring costs of £3.3m together with losses on the sale of fixed assets of £2.0m.

Germany – continuing
Turnover in our German operations was £422.6m (2001: £684.4m), a reduction of £261.8m year on year, or some 38%. The reduction reflects the planned capacity cuts we put in place as we continue to reshape this part of our business in order to return it to profitability.

Operating losses before exceptional items and goodwill amounted to £31.2m (2001: £25.5m). The increased losses year on year reflect the difficult trading conditions after 11 September, together with a weak charter market, particularly for the peak season. The impact of these factors on the results, however, was partly mitigated by continuing cost savings resulting from the cost reduction programme and restructuring plan which was started last year and completed this year. E-commerce costs in the year were £0.2m (2001: £1.0m). The changes in accounting policies in the year resulted in an increase in operating losses of £1.2m (2001 restated: £nil).

Exceptional costs in the year of £2.9m (2001: £11.3m) largely relate to the costs of the office relocation.

Northern Europe – acquisitions
On 12 October 2001, the Group acquired the brand name and retail outlets of NBBS, a tour operator based in The Netherlands. This acquisition, costing £1.3m, gives us a retail presence in this market and provides us with an important distribution channel for sales of our established tour operators in Holland.

Turnover from this business in the year amounted to £0.6m and operating losses were £2.6m.

North America – continuing
Turnover from our North American operations amounted to £568.6m (2001: £650.2m), a reduction of £81.6m, or 12.5% year on year. This largely reflects a reduction in the number of passengers carried in our tour operations in both Canada and the US as a result of capacity reductions following the events of 11 September, together with lower average selling prices. Volumes were also behind last year in our Auto Europe division, but improved yields helped mitigate the overall effect on turnover. In the Cruise division, bookings were up significantly year on year, but at much reduced prices.

Despite the reduced turnover, operating profit before goodwill and exceptional items amounted to £21.1m (2001 restated: £21.2m). This was achieved through significant cost reductions, including a reduction in headcount of some 10% and a cut in marketing spend. E-commerce costs in the year amounted to £0.5m (2001: £0.8m). The changes in accounting policies in the year resulted in a reduction in operating profit of £4.6m (2001 restated: £3.5m).

Joint Ventures & Associates
Joint ventures and associates consist of Hotetur, Tenerife Sol, our credit card joint venture and our investment in Aqua Sol. During the year these businesses contributed £7.1m to operating profit before exceptional items and goodwill (2001: £5.9m).

Board of Directors

David Crossland
Aged 55. Chairman.
40 years' experience in the travel industry. Founded the Group in 1972 and has led it through its development, from the establishment of its first tour operator, Airtours Holidays, through flotation on the London Stock Exchange in 1987, the launch of its first in-house airline, MyTravel Airways, and the expansion into Europe and North America in the 1990s. Member of the Nominations Committee and the Remuneration Committee.

Eric Sanderson
Aged 51. Non-Executive Deputy Chairman.
Joined the Board in 1987. Managing Director of Kwik-Fit Insurance Services Limited. Previously Chief Executive of Bank of Scotland Treasury Services and General Manager of Bank of Scotland. He has held a number of Non-Executive Directorships and is also Chairman of the Quality Advisory Panel of Docklands Light Railway. Member of the Audit Committee, Nominations Committee and Remuneration Committee.

Peter McHugh
Aged 55. 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. Previously was President and Chief Operating Officer of the Holland America Line – Westours Inc. More than 20 years' experience in the airline industry with senior management positions in Pan Am and TWA.

Philip Jansen
Aged 35. Chief Operating Officer.
Joined the Group and the Board in September 2002 as European Chief Executive and appointed to his current role in October 2002. Previously Managing Director of the Consumer Division of Telewest Communications plc and Commercial Director of the Dunlop Slazenger Group after starting his career with Procter & Gamble.

Kazia Kantor
Aged 53. Non-Executive Director.
Joined the Board in 2002. Chartered accountant. Has held senior finance positions with Inchcape PLC, Grand Metropolitan PLC and Central Independent Television PLC and latterly was Group Finance Director of Coats Viyella PLC. Has also held non-executive directorships at Somerfield plc, British Railways Board and Manchester Business School. Member of the Audit Committee and the Remuneration Committee. Appointed Group Finance Director on 28 November 2002 and resigned from the Remuneration Committee with immediate effect.

Mike Lee
Aged 55. Chief Executive of the MyTravel Aviation Division.
Joined the Group in 1990 with responsibility for forming MyTravel Airways, the Group's first in-house airline. Appointed to the Board in 1993 and given responsibility for all the Group's aviation interests in 1997. Has over 30 years' experience in the airline industry since starting his career with BOAC, and has held a number of senior positions in civil aviation. Non-Executive Director of NATS Holdings Limited.

Christer Sandahl
Aged 58. Executive Chairman of MyTravel Northern Europe.
Joined the Group in 1994 when the MyTravel Northern Europe Group was acquired. Joined the Board in 1996. Over 30 years' experience in the tour operating and airline industries. Vice President of the International Federation of Tour Operators and a Non-Executive Director of Proffice AB and the Cybercom Consulting Group.

Duncan Wilson
Aged 44. Chief Executive Officer of MyTravel UK.
Joined the Board in January 2002. Has been employed by the Group since 1998 holding a number of positions including Managing Director of Direct Holidays and Holidayline, Deputy Chief Executive of the UK businesses and Group Operations Director. Has substantial experience of travel agency distribution activities in the UK market and of tour operating activities in MyTravel Group's major destination countries.

Sir Tom Farmer CBE
Aged 62. Non-Executive Director.
Joined the Board in 1994. Chairman of Kwik-Fit Holdings plc. Appointed to the Board of the Ford Customer Service Division, USA in 1999. Chairman of the Scotland Against Drugs campaign, trustee of the Duke of Edinburgh Award and patron of numerous charities. Member of the Audit Committee, the Nominations Committee and the Remuneration Committee.

Dr Angus Porter
Aged 45. Non-Executive Director.
Joined the Board in 2002. 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 Remuneration Committee.

Paul Walker
Aged 45. Non-Executive Director.
Joined the Board in 2000. Chief Executive of The Sage Group plc since 1994, after joining that business in 1984 and becoming Finance Director in 1987. Non-Executive Director of Diageo plc and Non-Executive Chairman of gift retailer, The Gadget Shop. Member of the Audit Committee, the Nominations Committee and the Remuneration Committee.

1 David Crossland
2 Eric Sanderson
3 Peter McHugh
4 Philip Jansen
5 Kazia Kantor
6 Mike Lee
7 Christer Sandahl
8 Duncan Wilson
9 Sir Tom Farmer
10 Dr Angus Porter
11 Paul Walker

Directors' report

The Directors present their report together with the accounts and auditors' report for the year ended 30 September 2002.

Principal activities MyTravel Group plc continues to operate within the leisure travel industry with businesses in the United Kingdom, Ireland, mainland Europe, Scandinavia, Australia, Canada, Mexico 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, the Chief Executive's review on page 2 and the Operational and financial review on page 4.

Results and dividends The loss for the year after tax and minority interests amounts to £60.1m (2001 restated, as described in note 11: profit of £17.4m). The Directors do not recommend a final dividend in respect of the current financial year (2001: 7.50p). The interim dividend was 2.00p (2001: 2.00p) per ordinary share, amounting to £9.8m, paid on 19 June 2002. £69.9m has been transferred from reserves (2001 restated: £29.2m transferred from reserves).

Directors The Directors in office at the end of the year and their interests in the shares of the Company are listed on pages 17 and 18.

On 8 January 2002, Mr D Wilson, Dr A Porter and Ms K Kantor were appointed to the Board. Mr D Wilson was appointed as an Executive Director and Dr A Porter and Ms K Kantor as Non-Executive Directors. On 23 September 2002, Mr P Jansen was also appointed to the Board as an Executive Director. On 7 October 2002, Mr T R Byrne resigned from the Board. On 28 November Mr D Jardine and Mr R Carrick resigned from the Board and Ms K Kantor was appointed Group Finance Director.

During the year, save as referred to in the Remuneration report and note 32, 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 30 September 2002 was 36 days (2001: 29 days). The number of days credit taken by Group companies for trade purchases at 30 September 2002 ranged from 10 days to 66 days (2001: 4 days to 75 days). The average number of days taken was 27 days (2001: 22 days).

Corporate social responsibility As part of our on-going 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 (CSR) programme.

Workplace The Group recognises that its ability to deliver business objectives is dependent on the effective leadership of our 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. 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 on-going reviews of our exposures and the adequacy of arrangements in place to mitigate them.

MyTravel aims to be 'the best travel company in the world to work for' and the workplace component of our CSR framework will form a central part of our strategy for delivering this element of our corporate vision in the coming year.

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. Details of our Corporate Governance framework are included on pages 12 to 14.

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 impact.

MyTravel Group is one of the leading participants in the UK government's Sustainable Tourism Initiative (STI). The Group is represented on the STI steering committee and is one of four tour operators providing initial funding to establish the STI foundation. We intend to take a full and active part in the initiative and details of the progress made through the STI will be incorporated into future environmental performance reports.

Community Our community involvement programme focuses on health, children and families, and to ensure a targeted approach, we have initiated a partnership with Business in the Community. Joining BITC is seen as a natural step in our commitment to corporate responsibility and we are working with our partners to support local communities through a range of BITC sponsored initiatives.

Charities 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. The Group made charitable donations of £637,795 in the year to 30 September 2002. 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 4DF.

The Euro In February 2002, national currencies ceased to be legal tender for those countries in the 'Eurozone', which had an impact on many areas of the Group's activities. In particular, 17 business units operate from within the 'Eurozone'. As a result of the procedures previously established to deal with this event, for business units operating both within and outside of the 'Eurozone', we were able to ensure that a smooth transition took place and that all affected units maintained full compliance with statutory requirements throughout.

Substantial shareholdings At 25 November 2002, 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
David Crossland (Chairman)	50,000,000	10.1
Morgan Stanley Securities Limited	37,417,059	7.6
Meditor Capital Management Limited	22,888,500	4.6

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 the media of employee newsletters and regular news bulletins.

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. The price of each share option is determined by taking the average mid-market price over the three business days preceding any offer and this price can then be discounted by up to 20% solely at the Board's discretion. Options may normally be exercised during the period of six months after the completion of the savings contract.

The Group is in the process of establishing a special negotiating body as part of the formation of a European Works Council.

Annual General Meeting The notice convening the Annual General Meeting of the Company to be held on 20 March 2003 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the meeting.

Auditors During the year, Arthur Andersen resigned as auditors and Deloitte & Touche were appointed by the Directors to fill the casual vacancy.

Gregory J. McMahon

By order of the Board
G J McMahon
Secretary
28 November 2002

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 year 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 enquires, 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, subject to any material departures disclosed and explained in the accounts.

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 the Group discharges its corporate governance responsibilities effectively. The Board acknowledges also its responsibility to the Group's customers and employees.

As at 28 November 2002, the Board comprised eight Executive and five Non-Executive Directors. Following approval of the financial statements, Mr D Jardine and Mr R Carrick resigned from the Board. Details of the remaining 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 roles of Chairman and Chief Executive are distinct and the offices were held during the year by Mr D Crossland and Mr T R Byrne respectively. With effect from 17 October 2002, Mr P McHugh replaced Mr T R Byrne as Chief Executive. Mr E F Sanderson has been identified by the Board as the senior Non-Executive Director.

The Board convenes a minimum of seven times a year to consider strategic proposals; review financial performance against budgets; review operational performance against plans; and consider other matters reserved for the Board.

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 continually 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 Chief Executive's review and the Operational and financial review. The Board uses this to present a balanced and understandable assessment of the Group's position and prospects.

Sub-Committees of the Board
The Board has established three standing Sub-Committees to assist in the discharge of corporate governance responsibilities. These are as follows:

Nominations Committee This Committee meets 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.

Remuneration Committee This Committee was established and operates within the framework prescribed in the Combined Code. The Committee reviews the remuneration and contractual arrangements of the Executive Directors and senior executives. Full details of Directors' remuneration are included in the Remuneration report on page 15.

Audit Committee The role of the Audit Committee is to consider the appointment of the auditors, audit fees, scope of audit work and any resultant findings; to review the scope, remit and findings of Group Internal Audit; and to review the statement on, and monitor the effectiveness of the system of internal control.

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 nature of the Group's activities. Subject to the matters set out below, there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that has been in place throughout the year ended 30 September 2002. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The responsibility for managing risks on a day-to-day basis lies with the Group Executive and the design and operation of the risk and control infrastructure is the responsibility of the Management Board. The Group Executive is assisted in this process by the Risk Management Committee (chaired by the Finance Director) which is responsible for recommending risk management strategies and plans, assessing the ongoing effectiveness of the risk management process and assessing the effects of emerging risks on the corporate risk profile. This forum is the mechanism by which risks and opportunities are considered and, where appropriate, referred to the full Board.

The Board has reviewed the effectiveness of the system of internal control during the year and noted certain shortcomings. During the year ended 30 September 2001, the Group started the process of creating in Rochdale an accounting centre which would process the accounting for all the major UK based businesses. Given that many of the UK companies had old legacy accounting systems, the opportunity was taken to install up to date systems which would enable both speedier reporting and better management information. During the year ended 30 September 2002, the process of installation and migration of the systems from the operating companies was accelerated. The combination of using new and more sophisticated systems, together with relocation of the operations which resulted in a loss of certain key staff, led to a number of serious control failures and to the reporting of inaccurate financial information during the year. In addition, in migrating the legacy systems, a number of old, unreconciled or misallocated balances were revealed which it was decided should be either written off or provided against, the effect of which is included in the errors referred to in note 2 of the financial statements.

The risk management process that had been put in place to control the installation and migration did not operate properly and did not give early warning of the control failures. Moreover, the operational control over certain accounting records at the Rochdale accounting centre was also not sufficiently robust. The new Group management team has already put measures in place to remedy the position, including tighter financial management of the regular accounting processes and controls and increased monitoring by Group Internal Audit. In addition, our external auditors have been instructed to review the processes and controls in place at the Rochdale accounting centre and, in conjunction with management, to develop an action plan of necessary improvements for implementation in the next few months.

The principal risks that the Group faces can be categorised as follows:

Strategic Changes in the business environment influence the Group's development in terms of the strategies it pursues and the products and services it offers. These changes may stem from market competition or political, economic and technological advancement. Our operational gearing remains conservative and is sufficiently flexible, when combined with pricing adjustments, to maximise the use of the Group's assets.

Business Environment
Following the terrorist attacks in September 2001, and the associated and on-going uncertainties, the environment in which the business offers its products and services has changed significantly.

Security
The nature of our business, dealing with large numbers of people across a wide-geographical base, means we are now operating at a higher level of risk.

The need to provide our products and services in a secure and safe environment, together with the need to protect our staff and other assets, is paramount. Immediately following the terrorist attacks on 11 September 2001, the Group established a Security Measures Committee (SMC) to review existing security measures on a Group wide basis and by reference to individual business units and activities, geographic areas and individuals (staff, customers and the general public).

The principal objectives of the SMC are:

- On-going review of existing security arrangements and recommending improvements where necessary;
- Maintenance and testing of the Group's procedures for dealing with major incidents, should they occur; and
- Raising security awareness amongst personnel.

Trading Conditions
The terrorist attacks and the subsequent economic climate have had two principal effects on trading conditions:

- Demand – reduction in demand resulting in over-capacity in the market with the associated pressure on margins.
- Booking patterns – the climate of political and economic uncertainty has led to an increased propensity for customers to book closer to departure.

In response, management continue to review capacity in all major markets and programmes are adjusted to take account of anticipated changes in demand. Our operational gearing remains conservative and is sufficiently flexible, when combined with pricing adjustments, to maximise the use of the Group's assets.

In response to the expectation that booking patterns will continue to be dominated by the 'lates' market, management has commenced a programme of early booking initiatives to bring the booking pattern forward, thereby reducing the Group's exposure to downward pressure on prices resulting from over-capacity and competitive intensity in the 'lates' market.

Financial Whilst all risks may be considered to have a financial impact, the management of the Group's financial resources represents a key area of focus. Financial risks are faced in managing the capital position in accordance with our commitments to shareholders, ensuring sufficient funds are available to meet financial commitments as and when they fall due and protecting the Group's financial strength against adverse movements in financial or commodity markets.

Market
The complexity, geographical spread and, in particular, nature of the Group's operations makes it vulnerable to adverse changes in financial and commodity markets.

Interest Rate
Interest rate risk arises from the extent to which the Group holds interest rate sensitive assets or is exposed to interest rate sensitive liabilities.

Exchange Rate
Exchange rate risks arise principally because revenue and expenditure are transacted in different currencies or liabilities and assets exist in currencies other than Sterling.

The Group's exposure to fluctuations in exchange rates can be categorised as follows:

- Transactional – these relate primarily to the cost of acquiring accommodation and aircraft seats and other sundry costs.
- Translation – investments in foreign subsidiaries or other net assets held in currencies other than sterling.

Commodity
Commodity risk arises from the Group's aviation and cruising operations and is restricted to variations in the cost of the respective fuel types.

Our financial risks are managed through a framework of financial instruments which are applied within strict limits approved by the Board. See Operational and financial review on page 4.

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

The Board and Executive Management are committed to operating comprehensive processes to manage the key risks facing the business. They have established a framework of policies, systems and procedures to ensure that the nature and extent of risk undertaken is commensurate with the commercial returns and, where necessary, to ensure prudent risk-taking to protect shareholder value.

The Board and senior management have a clear and consistent understanding of the key risks facing the business. Whilst they recognise that it is not possible to eliminate risk completely, they have established an infrastructure of controls, systems, staff and processes that aim to minimise the likelihood of risks occurring or reduce the impact should they do so. The key elements of this infrastructure are:

- A risk management system which is operated at individual business unit level.
- Business continuity arrangements have been established for each key operating centre.
- Key business units are subject to a risk-based programme of independent assessment by the Group Internal Audit function.
- A comprehensive budgetary control system exists which requires each division to submit a detailed annual budget for challenge and approval by the Board. The Board monitors closely performance against budget on an ongoing basis.
- A corporate policy and procedures manual exists and is subject to continual development to ensure that it reflects changes in the business model and keeps pace with best practice.
- A comprehensive system of self-certification is operated which requires the Chief Executive Officer and Chief Financial Officer of each business unit to confirm compliance with the Group's minimum control standards. This process is subject to review by the Group Internal Audit function.

Compliance with the provisions of the Combined Code
The Directors confirm that for the year ended 30 September 2002 the Group complied with 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 exceptions:

- All of the Executive Directors except for Mr B C Sandahl and Mr M C Lee have service contracts that are terminable by the Company giving not less than 24 months' notice. The Board believes that these notice periods are appropriate given the need to retain the specialist skills that these Directors bring to the business. (B.1.7)
- Given his extensive knowledge of the business and the industry in which it operates, the Board believes it is appropriate for Mr D Crossland, the Chairman of MyTravel Group plc, to remain as a member of the Remuneration Committee. (B.2.2)

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 two areas referred to in the preceding paragraph, deviate from the Combined Code. A copy of this statement is available, on request, from the Company Secretary.

Remuneration report

As well as complying with the provisions of the Combined Code as disclosed in the Company's corporate governance statements, the Board has applied the Principles of Good Governance relating to Directors' remuneration as described below.

As at 28 November 2002, the members of the Remuneration Committee were Mr D Crossland, the Chairman of MyTravel Group plc, Mr E F Sanderson, a Non-Executive Director (who is Chairman of the Committee) and four Non-Executive Directors, Mr P A Walker, Sir Tom Farmer, Ms K Kantor and Dr A Porter. Following approval of the financial statements, Ms K Kantor was appointed Group Finance Director and resigned from the Remuneration Committee with immediate effect.

The Committee is responsible for the determination of the remuneration policy as applied to the Executive Directors and senior executives of the Company and the Group. Mr D Crossland does not determine his own remuneration package, or take any part in discussions concerning it, nor does he participate in any of the Group's share-based incentive schemes.

Executive 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 Committee takes account of the remuneration packages provided by companies within the same industry or which are of comparable size, and with similar records of performance. 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 main elements of Directors' remuneration are:

I BASE SALARY AND BENEFITS

Base salaries for Executive Directors are reviewed with effect from April each year. Benefits generally 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 Entitlements are dependent upon the actual performance of the Group compared to targets set at the beginning of the financial year by the Remuneration Committee.

The annual bonus for each of the Executive Directors is calculated on the basis of an annual entitlement of a maximum of 100% of base salary for all Executive Directors. Bonuses are normally paid in the December following the end of the relevant financial year in which they are earned.

b Deferred bonus scheme Under the terms of the MyTravel Group plc Deferred Bonus Plan, all Executive Directors other than Mr D Crossland 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 on 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.

III PENSION RIGHTS

Messrs D Jardine, R J Carrick, D C Wilson and P Jansen are each members of the MyTravel Group defined contribution scheme into which the Company contributes a proportion of their pension entitlement. Mr M C Lee has his own non contributory personal pension scheme into which the Company also contributes a proportion of his pension entitlement. The balance of their pension entitlement is contributed into an individual funded unapproved retirement benefits scheme established for each director concerned. The aggregate of the contributions for each of these directors paid into the MyTravel Group defined contribution scheme or in the case of Mr M C Lee, his personal pension scheme, and that individual's funded unapproved retirement benefit scheme is equivalent to 25% of their annual salary.

With regard to Mr B C Sandahl, the Group contributes each year into a pension scheme 25% of his annual salary together with, for the year ended 30 September 2002, a further £26,000 pursuant to his entitlement under the terms of his service contract with MyTravel Northern Europe AB.

With regard to Mr P McHugh, the Group contributes each year into a pension scheme 25% of his annual salary.

Mr D Crossland is not entitled to any pension rights under the terms of his service contract.

IV SHARE OPTION SCHEMES

a MyTravel Group plc share option scheme (1986) The Company operates an executive share option scheme, which was adopted by the Board on 30 June 1986 and which was set up for a period of ten years. In accordance with the rules of the scheme the last date on which options could be granted was 29 June 1996.

Options granted under the scheme which have not yet lapsed or been exercised are now exercisable as the performance criteria have been met for all outstanding Class 2 options under the scheme and Class 1 options were not subject to any performance criteria.

b MyTravel Group plc savings-related share option schemes The Company operates two savings-related share option schemes (SAYE schemes) both of which provide a long term savings and investment opportunity for employees. Directors participate on equal terms with other employees.

The MyTravel Group plc 1993 SAYE scheme was adopted by shareholders on 21 January 1993 and was open to all UK employees who had been with the Group for at least one year. Outstanding options may normally be exercised in the period between five years and five years and six months from the commencement date of the relevant savings contract. Eligible UK employees were invited to apply for the grant of options in July 1993 and in December 1996. Following the adoption of the MyTravel Group plc 1999 SAYE scheme by shareholders, no further options will be granted under the MyTravel Group plc 1993 SAYE scheme.

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 again in May 2002 to apply for the grant either of options normally exercisable between three years and three years and six months after the commencement of the relevant savings contract or of options normally exercisable between five years and five years and six months from such commencement.

c MyTravel Group plc qualifying employee share ownership trust Airtours Quest Trustee Limited is the trustee of an Inland Revenue approved qualifying share ownership trust. The trust was incorporated to obtain sufficient shares in the Company, either through applications for allotment or by market purchases, to transfer on to those members of the MyTravel Group SAYE schemes who exercise their options from time to time.

d 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 MyTravel Group plc 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.

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.

e The Travel Services International, Inc long term incentive share plan This plan was adopted by resolutions of the Boards of MyTravel Group plc, Travel Services International, Inc and Mourant & Co Trustees Limited on 1 December 2000. Under the terms of the plan, Mourant & Co Trustees Limited granted options on 1 December 2000 to employees of Travel Services International, Inc. Exercises of these options will initially be satisfied by the use of up to 1,612,500 shares held by the MyTravel Group No.2 Employee Benefit Trust. Travel Services International, Inc has agreed to provide the MyTravel Group No.2 Employee Benefit Trust with any further funds as may be required to purchase shares to satisfy options exceeding the number of shares currently held by the trust. The Company has agreed to guarantee to Mourant & Co Trustees Limited the performance of this obligation of Travel Services International, Inc.

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 Travel Services International, Inc over the financial year during which the options were granted.

f 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 performance target which will form the basis of the performance conditions applicable to the initial awards will be based on the Company's growth in earnings per share measured over the performance period.

Service contracts Each of the Executive Directors, other than Mr B C Sandahl, has a service contract with the Company. Mr Sandahl has a service contract with MyTravel Northern Europe AB.

The service contracts of the Executive Directors, other than Mr B C Sandahl and Mr M C Lee, are terminable by the Company giving not less than 24 months' notice. Mr Sandahl's contract is terminable on 12 months' notice. Until 16 August 2002, the service contract of Mr M C Lee was terminable by the giving of not less than 24 months' notice. On that date, it was agreed that upon future termination by notice of Mr Lee's employment by the Company at any time after 30 September 2002, or by Mr Lee at any time after 1 May 2003, such notice period would be shortened to three months and Mr Lee would receive upon termination a sum which corresponds to 120% of his now current maximum aggregate annual entitlement to salary, bonus, pension contributions and other benefits. Such service contract also provides that Mr Lee would continue, for various limited periods following any such termination, to receive certain other benefits payable under the contract.

The Board believes that these notice periods are appropriate given the need to retain the specialist skills that these Directors bring to the business.

Non-Executive Directors A committee comprising Executive Directors determines the remuneration of the Non-Executive Directors. Non-Executive Directors do not receive bonus payments or share options and they are not members of the Company's pension scheme. Each Non-Executive Director has a letter of appointment which provides that their appointment is terminable by the Company giving not less than six months' notice, except in the case of Mr E F Sanderson whose contract specifies not less than twelve months notice.

Remuneration in respect of Directors was as follows:

	Annual base salary September 2002 £000	Salary and fees £000	Benefits £000	Pension‡ contributions £000	Total 2002 £000	Total 2001 £000
Executive						
D Crossland, Chairman	570	570	67	–	637	1,039
P McHugh	355	355	42	89	486	723
P Jansen (appointed 23 September 2002)	420	10	2	2	14	–
D Jardine	380	365	50	91	506	688
R J Carrick	380	365	70	94	529	667
M C Lee	380	365	85	94	544	768
B C Sandahl	322	314	11	77	402	645
D C Wilson (appointed 8 January 2002)	380	266	14	66	346	–
T R Byrne (resigned 7 October 2002)	525	488	78	122	688	902
		3,098	419	635	4,152	5,432
Non-Executive						
E F Sanderson	165	140	1	–	141	36
Sir Tom Farmer	18	18	–	–	18	18
K Kantor (appointed 8 January 2002)	18	17	–	–	17	–
Dr A Porter (appointed 8 January 2002)	18	17	–	–	17	–
P A Walker	36	36	–	–	36	29
		228	1	–	229	83
Total emoluments		3,326	420	635	4,381	5,515

‡ These amounts include payments made or amounts accrued in respect of the contributions under the funded unapproved retirement benefit schemes for Mr T R Byrne, Mr D Jardine, Mr M C Lee, Mr R J Carrick and Mr P Jansen.

Remuneration report continued

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 2001 (or the date of their appointment to the Board if later) and 30 September 2002 were as follows:

			1986 Share Option Scheme	
	Ordinary shares 2002	Ordinary shares 2001	Class 2 options 2002	Class 2 options 2001
D Crossland*	50,000,000	50,000,000	–	–
P McHugh	9,887	–	–	–
P Jansen	–	–	–	–
D Jardine	10,153	–	–	–
R J Carrick	55,038	44,885	–	–
M C Lee ***	468,622	468,622	–	–
B C Sandahl	19,392	–	–	–
D C Wilson	35,647	21,000	–	–
T R Byrne	28,859	–	360,000	360,000
E F Sanderson	83,720	18,720	–	–
Sir Tom Farmer	525,000	75,000	–	–
K Kantor	15,000	–	–	–
Dr A Porter	7,280	–	–	–
P A Walker	29,120	–	–	–

	2002 LTIP 2002	SAYE scheme options 2002	SAYE scheme options 2001	Executive 1999 scheme 2002	Executive 1999 scheme 2001	Deferred Bonus Plan ** 2002	Deferred Bonus Plan ** 2001
D Crossland*	–	–	–	–	–	–	–
P McHugh	101,672	–	–	487,684	487,684	9,887	–
P Jansen	–	–	–	–	–	–	–
D Jardine	100,671	4,136	4,136	431,804	431,804	10,153	–
R J Carrick	100,671	4,768	4,768	490,776	490,776	10,153	–
M C Lee ***	100,671	–	8,307	431,804	431,804	–	–
B C Sandahl	83,934	–	–	431,804	431,804	19,392	–
D C Wilson	100,671	–	–	393,124	105,252	14,647	14,647
T R Byrne	172,579	13,176	8,859	607,228	607,228	–	–
E F Sanderson	–	–	–	–	–	–	–
Sir Tom Farmer	–	–	–	–	–	–	–
K Kantor	–	–	–	–	–	–	–
Dr A Porter	–	–	–	–	–	–	–
P A Walker	–	–	–	–	–	–	–

* The interests of Mr D Crossland are held by Crossland Family Limited a company beneficially owned by Flight Company Limited a company jointly owned by Mr Crossland and his wife.

** The Ordinary Shares under the Deferred Bonus Plan, in which the Executive Directors are interested, are held (as bare nominee for each of them respectively) by Mourant & Co Trustees Limited as Deposited Shares pursuant to the Rules of The MyTravel Group plc Deferred Bonus Plan ("the Bonus Plan"). 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 each of such Directors in respect of the same number of Ordinary Shares as are currently held by Mourant & Co Trustees Limited as Deposited Shares on behalf of such Director. The Rules of the Bonus Plan provide that the Ordinary Shares comprised in any such Contingent Award will be transferred to the relevant Director of such Trustee 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 such Director in the MyTravel Group at that time.

*** Of the 468,622 ordinary shares (1 October 2001: 468,622), 43,250 (1 October 2001: 43,250) represents a non-beneficial interest.

Each of the following Executive Directors of the Company, P McHugh, P Jansen, D Jardine, R J Carrick, M C Lee, B C Sandahl, D C Wilson and T R Byrne, falls within the class of discretionary beneficiaries of the No.3 EBT and is therefore deemed, pursuant to the Companies Act 1985, to be interested in all of the 848,614 Ordinary Shares in the Company held by the No.3 EBT. Such interest is in addition to the interests disclosed above in relation to each of such Directors.

In the period between 30 September 2002 and 27 November 2002 there were no changes in the Directors' interests referred to above.

As at 30 September 2002 the undermentioned Directors had outstanding the following options to acquire ordinary shares of the Company under the terms of the MyTravel Group plc executive share option scheme (1986), the MyTravel Group plc 1999 executive share option scheme, the MyTravel Group plc SAYE schemes, the MyTravel Group plc Long Term Incentive Plan 2002 and the Deferred Bonus Plan.

		At 30 September 2002	Lapsed in year	Exercised in year	Granted in year	At 1 October 2001	Exercise price	Date from which exercisable	Expiry date
P 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	–	**	***	***
D Jardine	1999 executive scheme:								
	Approved options	14,457	–	–	–	14,457	207.50p	*	*
	Unapproved options	417,347	–	–	–	417,347	207.50p	*	*
	SAYE	4,136	–	–	–	4,136	234.20p	01.08.04	31.01.05
	2002 LTIP	100,671	–	–	100,671	–	**	*	*
	Deferred Bonus Plan	10,153	–	–	10,153	–	**	***	***
R J Carrick	1999 executive scheme:								
	Approved options	7,117	–	–	–	7,117	421.50p	*	*
	Unapproved options	51,855	–	–	–	51,855	421.50p	*	*
	Unapproved options	431,804	–	–	–	431,804	207.50p	*	*
	SAYE	4,768	–	–	–	4,768	203.14p	01.06.03	30.11.03
	2002 LTIP	100,671	–	–	100,671	–	**	*	*
	Deferred Bonus Plan	10,153	–	–	10,153	–	**	***	***
M C Lee	1999 executive scheme:								
	Unapproved options	431,804	–	–	–	431,804	207.50p	*	*
	SAYE	–	8,307	–	–	8,307	203.14p	01.06.05	30.11.05
	2002 LTIP	100,671	–	–	100,671	–	**	*	*
B C Sandahl	1999 executive scheme:								
	Unapproved options	431,804	–	–	–	431,804	207.50p	*	*
	2002 LTIP	83,934	–	–	83,934	–	**	*	*
	Deferred Bonus Plan	19,392	–	–	19,392	–	**	***	***
D C Wilson	1999 executive scheme:								
	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	–	**	***	***
T R Byrne	Class 2	210,000	–	–	–	210,000	149.50p	05.08.99	04.08.04
	Class 2	150,000	–	–	–	150,000	135.67p	14.07.00	13.07.05
	SAYE	–	–	8,859	–	8,859	194.70p	01.03.02	31.08.02
	SAYE	13,176	–	–	13,176	–	125.60p	01.06.07	01.12.07
	1999 executive scheme:								
	Unapproved options	607,228	–	–	–	607,228	207.50p	*	*
	2002 LTIP	172,579	–	–	172,579	–	**	*	*

* 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 30 September 2002 was 81.50p (2001: 160.75p) and the range during the financial year ended 30 September 2002 was 81.50p to 283.50p. These mid-market prices are as derived from the London Stock Exchange Daily Official List and the range of prices are as derived from Datastream.

Set out below is a summary of the gains on exercise made by Directors who exercised any share options during the year ended 30 September 2002 and the preceding financial year.

		Exercised year ended 30 September 2002	Exercised year ended 30 September 2001	Exercise price	Market price at date of exercise	Gain year ended 30 September 2002 £	Gain year ended 30 September 2001 £
T R Byrne	SAYE	8,859	–	194.70p	243.25p	4,301	–
M C Lee	Class 2	–	121,620	38.56p	274.38p	–	286,798
	Class 1	–	300,000	149.50p	274.38p	–	374,625
	Class 2	–	300,000	149.50p	274.38p	–	374,625
R J Carrick	1998 share bonus plan	–	75,953	100.00p(1)	214.38p	–	162,823

(1) The exercise price refers to the total number of shares exercised.

Independent auditors' report

To the members of MyTravel Group plc We have audited the financial statements of MyTravel Group plc for the year ended 30 September 2002 which comprise the Profit and Loss Account, the Balance Sheets, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, together with the related notes numbered 1 to 33, the Reconciliation of movements in Group shareholders' funds and the Accounting Policies. These financial statements have been prepared under the accounting policies set out therein.

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 financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 or the Listing Rules 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, 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 other information contained in the Annual Report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent mistatements or material inconsistencies with the financial statements.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements 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 financial statements 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 financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Manchester
2~~7~~ November 2002
8

Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of the policies for the recognition of retail revenue, insurance, indirect selling costs (paragraph 10 below) and deferred tax (paragraph 11 below). Further details are given in note 11 to the accounts.

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 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 the 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.

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 or reducing balance 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 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 the legal obligation placed upon the Group under the terms of the operating leases.

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 and 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 on receipt of the full payment. 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 that are based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. 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 future has been entered into by the subsidiary, joint venture or associate.

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 Each year an estimate of the results and net assets of certain of the Company's overseas subsidiary undertakings are hedged.The actual results are translated using the hedged rates. Average exchange rates are used to translate the results of all other overseas subsidiary undertakings and the balance sheets of such overseas subsidiary undertakings are translated at year 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. Foreign currency monetary assets and liabilities held at the year end are translated at year 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 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.

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 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 Shares held by the employee share ownership trusts are recorded in the Balance Sheet within fixed asset investments at cost including expenses less amounts written off. Provision is made for any impairment.

Group profit and loss account

Year ended 30 September	note	Pre-goodwill and exceptional operating items 2002 £m	Goodwill and exceptional operating items (note 2) 2002 £m	Total 2002 £m	Restated Pre-goodwill and exceptional operating items 2001 £m	Goodwill and exceptional operating items (note 2) 2001 £m	Restated Total 2001 £m
Turnover: Group and share of joint ventures'	1(a)						
Continuing operations		4,412.7	–	4,412.7	5,056.6	–	5,056.6
Acquisitions		0.6	–	0.6	–	–	–
		4,413.3	–	4,413.3	5,056.6	–	5,056.6
Discontinued operations		–	–	–	22.3	–	22.3
		4,413.3	–	4,413.3	5,078.9	–	5,078.9
Less: share of joint ventures' turnover	1(a)						
Continuing operations		(34.1)	–	(34.1)	(28.1)	–	(28.1)
Group turnover		4,379.2	–	4,379.2	5,050.8	–	5,050.8
Cost of sales	3	(3,731.0)	(29.5)	(3,760.5)	(4,245.5)	–	(4,245.5)
Gross profit		648.2	(29.5)	618.7	805.3	–	805.3
Net operating expenses pre-goodwill		(675.7)	(4.4)	(680.1)	(698.0)	(24.3)	(722.3)
Goodwill	12	–	(30.7)	(30.7)	–	(30.1)	(30.1)
Net operating expenses	3	(675.7)	(35.1)	(710.8)	(698.0)	(54.4)	(752.4)
Operating (loss)/profit	1(b)						
Continuing operations		(24.9)	(64.5)	(89.4)	107.3	(54.4)	52.9
Acquisitions		(2.6)	(0.1)	(2.7)	–	–	–
Group operating (loss)/profit		(27.5)	(64.6)	(92.1)	107.3	(54.4)	52.9
Income from interests in joint ventures and associates	1(c)						
Joint ventures – continuing operations		5.2	–	5.2	3.0	–	3.0
– goodwill	14	–	(1.2)	(1.2)	–	(1.2)	(1.2)
Associates – continuing operations		1.9	–	1.9	2.9	–	2.9
– goodwill	14	–	(0.6)	(0.6)	–	(0.5)	(0.5)
Group and share of joint ventures' and associates' operating (loss)/profit		(20.4)	(66.4)	(86.8)	113.2	(56.1)	57.1
Exceptional items							
Profit on sale of subsidiary undertaking	1(d)			9.6			–
Profit on sale of tangible fixed assets	1(e)			0.2			22.8
Provision for losses on terminated operations	1(f)			(2.5)			–
Losses on terminated operations	1(f)			(2.6)			(19.7)
Less utilisation of provision	1(f)			0.8			15.8
Costs of a fundamental reorganisation	1(g)			–			(11.3)
(Loss)/profit on ordinary activities before finance charges				(81.3)			64.7
Finance charges (net)	1(h), 4						
Group				9.8			(2.3)
Joint ventures and associates				(1.3)			(0.1)
(Loss)/profit on ordinary activities before tax	1(i), 5			(72.8)			62.3
Tax on (loss)/profit on ordinary activities	7			29.5			(24.7)
(Loss)/profit on ordinary activities after tax				(43.3)			37.6
Equity minority interests				(0.1)			(3.5)
Non-equity minority interests	25			(16.7)			(16.7)
(Loss)/profit for the financial year				(60.1)			17.4
Dividends	9			(9.8)			(46.6)
Transfer from reserves	24			(69.9)			(29.2)
(Loss)/earnings per share	10						
Basic				(12.22p)			3.55p
– pre-goodwill				(5.62p)			10.05p
– pre-goodwill and exceptional items				(1.08p)			13.45p
Diluted				(12.22p)			3.53p
– pre-goodwill				(5.62p)			9.99p
– pre-goodwill and exceptional items				(1.08p)			13.38p

The accounting policies on pages 20 and 21 and notes on pages 27 to 49 form part of these accounts.

Group balance sheet

At 30 September	note	2002 £m	Restated 2001 £m
Fixed assets			
Intangible assets – goodwill	12	490.4	540.2
Tangible assets	13	489.6	431.1
Joint venture undertakings	14		
Share of gross assets		70.8	73.0
Share of gross liabilities		(51.3)	(55.9)
Goodwill		22.2	23.5
		41.7	40.6
Investments in associated undertakings	14	30.1	29.9
Other investments	14	11.7	13.2
		83.5	83.7
Total fixed assets		1,063.5	1,055.0
Current assets			
Stocks	15	14.0	13.3
Debtors: amounts falling due within one year	16	556.0	591.1
Debtors: amounts falling due after one year	17	168.2	181.0
Cash and deposits	18	292.7	378.6
		1,030.9	1,164.0
Creditors: amounts falling due within one year	19	(1,165.4)	(1,212.9)
Net current liabilities		(134.5)	(48.9)
Total assets less current liabilities		929.0	1,006.1
Creditors: amounts falling due after one year			
Convertible debt	20	(219.9)	(271.3)
Other creditors	20	(228.8)	(189.3)
		(448.7)	(460.6)
Provisions for liabilities and charges	22	(93.6)	(90.6)
Net assets	10	386.7	454.9
Capital and reserves			
Called up share capital	23	49.5	49.3
Share premium account	24	113.9	109.5
Capital redemption reserve	24	3.2	3.2
Other reserves	24	18.0	18.0
Profit and loss account	24	(8.1)	65.3
Equity shareholders' funds		176.5	245.3
Equity minority interests		0.7	1.1
Non-equity minority interests	25	209.5	208.5
		386.7	454.9

The accounts were approved by the Board of Directors on 28 November 2002.

D Jardine
Director

The accounting policies on pages 24 and 25 and notes on pages 31 to 54 form part of these accounts.

Company balance sheet

At 30 September	note	2002 £m	Restated 2001 £m
Fixed assets			
Intangible assets – goodwill	12	0.5	0.5
Tangible assets	13	45.8	57.9
Investments	14	649.8	651.3
Total fixed assets		696.1	709.7
Current assets			
Stocks	15	4.5	4.2
Debtors: amounts falling due within one year	16	1,675.5	1,835.4
Debtors: amounts falling due after one year	17	62.2	75.7
Cash and deposits	18	99.7	70.6
		1,841.9	1,985.9
Creditors: amounts falling due within one year	19	(1,845.4)	(1,894.7)
Net current (liabilities)/ assets		(3.5)	91.2
Total assets less current liabilities		692.6	800.9
Creditors: amounts falling due after one year			
Convertible debt	20	(219.9)	(271.3)
Other creditors	20	(70.6)	(71.9)
		(290.5)	(343.2)
Provisions for liabilities and charges	22	(13.8)	(8.8)
Net assets		388.3	448.9
Capital and reserves			
Called up share capital	23	49.5	49.3
Share premium account	24	113.9	109.5
Capital redemption reserve	24	3.2	3.2
Other reserves	24	153.6	153.6
Profit and loss account	24	68.1	133.3
Equity shareholders' funds		388.3	448.9

The accounts were approved by the Board of Directors on 28 November 2002.

D Jardine
Director

D. Jardine

The accounting policies on pages 24 and 25 and notes on pages 31 to 54 form part of these accounts.

Group cash flow statement

Year ended 30 September	note	2002 £m	2001 £m
Net cash inflow/(outflow) from operating activities	26	9.9	(10.5)
Dividends received from associated undertakings		2.4	0.6
Returns on investments and servicing of finance			
Interest received		41.2	34.3
Interest paid		(32.9)	(30.1)
Interest element of finance leases		(7.9)	(3.4)
Dividends paid on undated preference shares	25	(15.8)	(15.8)
Minority interests		(0.3)	(3.3)
Net cash outflow from returns on investments and servicing of finance		(15.7)	(18.3)
Tax received/(paid)		0.6	(1.3)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(70.1)	(126.2)
Purchase of fixed asset investments		(1.8)	(7.9)
Sale of tangible fixed assets		30.1	86.0
Loans to joint venture undertaking repaid		18.7	18.0
Net cash outflow from capital expenditure and financial investment		(23.1)	(30.1)
Acquisitions and disposals	14		
Purchase of subsidiary undertakings		(8.5)	(31.6)
Acquisition expenses		(0.6)	(1.1)
Cash at bank and in hand acquired with subsidiaries		–	5.9
Proceeds less cash at bank and in hand relating to disposal of subsidiaries		35.5	(3.5)
Investment in joint venture and associated undertakings		(0.1)	(27.4)
Net cash inflow/(outflow) from acquisitions and disposals		26.3	(57.7)
Equity dividends paid		(46.8)	(45.1)
Cash outflow before use of liquid resources and financing		(46.4)	(162.4)
Management of liquid resources			
Movement on term deposits		79.7	328.9
Net cash inflow from management of liquid resources		79.7	328.9
Financing			
Issue of shares		4.0	2.2
Issue of unsecured senior loan notes		–	66.5
Redemption of Convertible Bonds due 2004		(45.0)	(25.0)
Loan repayments		(14.3)	(277.1)
Capital element of finance lease rental payments		(18.8)	(9.8)
Net cash outflow from financing		(74.1)	(243.2)
Decrease in cash in the year		(40.8)	(76.7)

The accounting policies on pages 20 and 21 and notes on pages 27 to 49 form part of these accounts.

Group cash flow statement continued

Year ended 30 September	note	2002 £m	2001 £m
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year		(40.8)	(76.7)
Cash outflow from decrease in debt and lease financing		78.1	245.4
Cash inflow from decrease in liquid resources		(79.7)	(328.9)
Changes in net debt resulting from cash flows		(42.4)	(160.2)
Loans and finance leases acquired with subsidiary undertakings		–	(0.8)
Transfer of Convertible Bonds due 2004 redeemed 30 September 2002, settled 3 October 2002		8.4	–
Transfer of Convertible Bonds due 2004 redeemed 29 September 2000, settled 2 October 2000		–	(9.0)
Issue costs of Convertible Bonds due 2004		(2.0)	(2.0)
Capitalisation of finance leases		(122.4)	–
Exchange differences		48.5	(6.9)
Movement in net debt in the year		(109.9)	(178.9)
Net (debt)/funds brought forward		(20.0)	158.9
Net debt carried forward	27	(129.9)	(20.0)

Group statement of total recognised gains and losses

Year ended 30 September	note	2002 £m	Restated 2001 £m
(Loss)/profit for the financial year		(60.1)	17.4
Currency differences on foreign currency net investments		(2.9)	(8.8)
Total recognised gains and losses relating to the year		(63.0)	8.6
Prior year adjustment	11	(67.0)	–
Total gains and losses recognised since last financial statements		(130.0)	8.6

Reconciliation of movements in group shareholders' funds

Year ended 30 September	2002 £m	Restated 2001 £m
(Loss)/profit for the financial year	(60.1)	17.4
Dividends	(9.8)	(46.6)
	(69.9)	(29.2)
Exchange differences	(2.9)	(8.8)
Issue of shares (net of expenses)	4.0	2.1
Net decrease in shareholders' funds	(68.8)	(35.9)
Equity shareholders' funds at 1 October	245.3	281.2
Equity shareholders' funds at 30 September	176.5	245.3

The opening shareholders' funds at 1 October 2001 as previously reported amounted to £312.3m before the prior year adjustment of £67.0m (see note 11).

The accounting policies on pages 20 and 21 and notes on pages 27 to 49 form part of these accounts.

Notes to the accounts

1 Segmental information

		2002 £m	Restated 2001 £m
a Turnover			
UK			
continuing		2,473.4	2,661.6
Other Europe			
continuing	Northern Europe	914.0	1,032.3
	Germany	422.6	684.4
acquisitions		0.6	–
discontinued		–	22.3
North America			
continuing		568.6	650.2
Group		4,379.2	5,050.8
Joint ventures			
continuing	Hotetur	27.2	20.0
	Other	6.9	8.1
Group and share of joint ventures'		4,413.3	5,078.9

Turnover by destination is not materially different from turnover by origin.

Turnover for discontinued operations in 2001 relates to the Belgian and French operations which were closed in October 2001. These operations contributed £nil to operating profit.

The impact of the prior year adjustment on 2001 is on UK turnover only.

		Pre-goodwill and exceptional operating items		Goodwill		Exceptional operating items		Total	Restated Total
		2002 £m	Restated 2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
b Operating (loss)/profit									
UK									
continuing		(24.1)	77.7	(6.0)	(6.0)	(28.1)	(20.7)	(58.2)	51.0
Other Europe									
continuing	Northern Europe	9.3	33.9	(1.0)	(0.9)	(3.3)	(3.6)	5.0	29.4
	Germany	(31.2)	(25.5)	(6.4)	(6.7)	(2.5)	–	(40.1)	(32.2)
acquisitions		(2.6)	–	(0.1)	–	–	–	(2.7)	–
North America									
continuing		21.1	21.2	(17.2)	(16.5)	–	–	3.9	4.7
		(27.5)	107.3	(30.7)	(30.1)	(33.9)	(24.3)	(92.1)	52.9

The impact of the prior year adjustment on 2001 is to reduce UK operating profit by £14.7m, Northern Europe operating profit by £0.8m and North America operating profit by £3.5m.

		Pre-goodwill and exceptional operating items		Goodwill		Exceptional operating items		Total	Total
		2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m
c Income from interests in joint ventures and associates									
Joint ventures									
continuing	Hotetur	3.7	1.9	(1.2)	(1.2)	–	–	2.5	0.7
	Other	1.5	1.1	–	–	–	–	1.5	1.1
Associates									
continuing	Germany – direct distribution	0.1	1.1	–	(0.3)	–	–	0.1	0.8
	Aqua Sol	1.8	1.8	(0.6)	(0.2)	–	–	1.2	1.6
		7.1	5.9	(1.8)	(1.7)	–	–	5.3	4.2

1 Segmental information continued

d Profit on sale of subsidiary undertaking

On 28 September 2002, the Group disposed of its interests in the Eurosites camping division. Details of the consideration received and net assets disposed of are given in note 14. The tax effect of the profit on disposal of £9.6m was £2.4m.

e Profit on sale of tangible fixed assets

		2002 £m	2001 £m
UK			
continuing		2.6	22.9
Other Europe			
continuing	Northern Europe	(2.0)	–
	Germany	(0.4)	(0.1)
		0.2	22.8

The tax effect of the profit on sale of tangible fixed assets was £0.1m (2001: £7.9m).

f Losses on terminated operations

	2002 £m	2001 £m
UK	4.3	1.9
Other Europe	–	2.0
	4.3	3.9

The losses on terminated operations in the UK represent the costs of exiting of the Group from Vacation Ownership operations. During 2002, the Group recorded £1.8m of losses relating to these operations and provided £2.5m for losses on the related fixed assets.

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 and made provision for £20.2m of related costs. During 2002, £0.8m of costs were incurred and £0.8m of the provision utilised.

There was no material tax effect as a result of these transactions.

g Costs of a fundamental reorganisation

The costs of a fundamental reorganisation in 2001 include £7.9m relating to the radical restructuring of the Group's UK activities which resulted in the relocation of the majority of the UK back office activities to a single site in Rochdale, offset by £7.8m of income (net of costs) from the settlement of a contractual dispute, following the termination of an outsourcing agreement in June 2000 and the write-off of legacy systems associated with the fundamental reorganisation. There was no tax effect as a result of these transactions.

In 2001, following the acquisition of the remaining shares of FTi in September 2000, a fundamental reorganisation of the Group's business in Germany was undertaken, incurring £11.2m of costs with no material tax effect. The costs incurred largely reflected the reorganisation and rationalisation of the German operations, which fundamentally changed the product offering in line with the needs of the market and refocused the business on more profitable customer segments. This included the closedown of the in-house airline, FlyFTi, which was announced in May 2001, and a radical reorganisation of the back office support functions in place at MyTravel Germany.

h Finance charges (net)

		2002 £m	2001 £m
UK			
continuing		31.0	24.0
Other Europe			
continuing	Northern Europe	4.2	1.8
	Germany	(8.2)	(9.1)
acquisitions		(0.1)	–
North America			
continuing		(17.1)	(19.0)
Group		9.8	(2.3)
Joint ventures			
continuing	Hotetur	(1.5)	(0.3)
	Other	0.4	–
Associates			
continuing	Germany – direct distribution	–	0.2
	Aqua Sol	(0.2)	–
Joint ventures and associates		(1.3)	(0.1)
Total finance charges (net) (note 4)		8.5	(2.4)

1 Segmental information continued

i **(Loss)/profit on ordinary activities before tax**

		Pre-goodwill and exceptional items 2002 £m	Pre-goodwill and exceptional items Restated 2001 £m	Goodwill 2002 £m	Goodwill 2001 £m	Exceptional items 2002 £m	Exceptional items 2001 £m	Total 2002 £m	Restated Total 2001 £m
UK									
continuing		6.9	101.7	(6.0)	(6.0)	(20.2)	0.2	(19.3)	95.9
Other Europe									
continuing	Northern Europe	13.5	35.7	(1.0)	(0.9)	(5.3)	(3.6)	7.2	31.2
	Germany	(39.4)	(34.6)	(6.4)	(6.7)	(2.9)	(11.3)	(48.7)	(52.6)
acquisitions		(2.7)	–	(0.1)	–	–	–	(2.8)	–
discontinued		–	–	–	–	–	(2.0)	–	(2.0)
North America									
continuing		4.0	2.2	(17.2)	(16.5)	–	–	(13.2)	(14.3)
Joint ventures									
continuing	Hotetur	2.2	1.6	(1.2)	(1.2)	–	–	1.0	0.4
	Other	1.9	1.1	–	–	–	–	1.9	1.1
Associates									
continuing	Germany – direct distribution	0.1	1.3	–	(0.3)	–	–	0.1	1.0
	Aqua Sol	1.6	1.8	(0.6)	(0.2)	–	–	1.0	1.6
		(11.9)	110.8	(32.5)	(31.8)	(28.4)	(16.7)	(72.8)	62.3

j **Net assets**

	2002 £m	Restated 2001 £m
UK	57.0	48.2
Other Europe	210.0	281.2
North America	119.7	125.5
	386.7	454.9

The impact of the prior year adjustment on 2001 is to reduce net assets by £58.7m in the UK, £5.3m in Other Europe and £3.0m in North America.

2 Exceptional operating items

				2002 £m	2001 £m
UK					
continuing		i	accounting errors	26.0	–
			impairment of own shares	2.1	–
		ii	reorganisation costs	–	20.7
Other Europe					
continuing	Northern Europe	ii	reorganisation costs	3.3	3.6
	Germany	iii	reorganisation and relocation costs	2.5	–
				33.9	24.3

i The exceptional charge of £26.0m represents the cumulative effect over several years of a number of accounting errors identified in the current year relating to prior years. These comprised misallocations of costs between seasons and years (£10.3m) and differences on intercompany accounts (£15.7m). The comparative figures have not been restated because the effect of these errors in the prior year was not fundamental to the stated results and balance sheets in those financial statements in that year.

ii The costs in 2002 relate to reorganisation and shop closure costs in Norway and Finland. The comparative costs in 2001 relate to the reorganisation of certain businesses in the UK and Scandinavia including the restructuring of the Group's retail operations in those countries.

iii The costs relate to the relocation of the offices in Germany and associated reorganisation.

The tax effect of these exceptional items was £8.6m (2001: £7.2m).

3 Cost of sales and net operating expenses

	Continuing operations 2002 £m	Acquisitions 2002 £m	Total 2002 £m	Restated Continuing operations 2001 £m	Discontinued operations 2001 £m	Restated Total 2001 £m
Cost of sales	3,760.4	0.1	3,760.5	4,223.2	22.3	4,245.5
Net operating expenses						
Selling and marketing costs	276.4	2.1	278.5	317.1	–	317.1
Administrative expenses	431.1	1.2	432.3	435.3	–	435.3
	707.5	3.3	710.8	752.4	–	752.4

Included within cost of sales are £29.5m of exceptional items (2001: £nil) relating to continuing operations. Included within administrative expenses are £4.4m of exceptional items (2001: £24.3m), relating to continuing operations. See note 2 for further explanation.

As part of the Group's comprehensive review of accounting policies and practices, the cost of guaranteed accommodation is now charged in line with the contractual arrangements and expected utilisation levels on a straight line basis over the season to which it relates. The result is that costs expensed in the year ended 30 September 2002 have been reduced by £8.3m. The revised basis is consistent with that applied to other significant components of the holiday cost.

Notes to the accounts continued

4 Finance charges (net)

	2002 £m	2001 £m
Interest payable on		
– bank borrowings	(9.9)	(13.2)
– other borrowings	(23.2)	(17.0)
Share of joint ventures' and associates' interest payable (see note 1(h))	(1.3)	(0.1)
Amortisation of issue costs relating to Convertible Bonds	(2.0)	(2.0)
Finance charges in respect of finance leases	(7.9)	(3.4)
	(44.3)	(35.7)
Interest capitalised	0.8	0.6
	(43.5)	(35.1)
Bank interest receivable	37.8	32.7
Profit on buyback of Convertible Bonds	4.9	–
Foreign exchange gain	9.3	–
	8.5	(2.4)

5 (Loss)/profit on ordinary activities before tax

	2002 £m	2001 £m
The (loss)/profit on ordinary activities is stated after charging/(crediting):		
Auditors' remuneration for audit services	1.0	1.2
Depreciation of tangible fixed assets		
– owned	59.4	71.2
– held under finance leases	15.2	2.6
Amortisation of goodwill	32.5	31.8
Operating lease payments		
– hire of aircraft and aircraft spares	116.0	144.0
– other	88.2	78.3
Exceptional operating items (see note 2)	33.9	24.3
Profit on sale of subsidiary undertaking (see note 1(d))	(9.6)	–
Profit on sale of tangible fixed assets (see note 1(e))	(0.2)	(22.8)
Losses on terminated operations (see note 1(f))	4.3	3.9
Costs of a fundamental reorganisation (see note 1(g))	–	11.3
E-commerce costs	23.2	15.2

In addition to fees paid to the auditors for audit services, fees for non-audit services paid by the Company and its UK subsidiary undertakings to Arthur Andersen amounted to £3.6m (2001: £7.2m) and to Deloitte & Touche £0.2m (2001: £nil)

During the year, certain subsidiary companies modified the basis on which depreciation is calculated so that depreciation is now charged in accordance with Group policy from the month following acquisition rather than for a full year. The result of this is that the depreciation charge for the year ended 30 September 2002 has been reduced by £2.1m. The prior year impact is not material.

6 Directors and employees

	2002 £m	2001 £m
Staff costs during the year were as follows:		
Wages and salaries	437.6	464.6
Social security costs	37.7	42.4
Other pension costs (see note 30)	15.8	16.8
	491.1	523.8

The average number of employees of the Group during the year was 25,217 (2001: 27,968). 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 15 to 19 within the Remuneration report and form part of these audited accounts.

7 Tax on (loss)/profit on ordinary activities

a Analysis of charge in period

		2002 £m	Restated 2001 £m
Current tax			
The current tax charge is based on the (loss)/profit for the year and is made up as follows:			
UK	corporation tax at 30% (2001: 30%)	(16.7)	9.7
	adjustments in respect of prior years	3.2	5.8
		(13.5)	15.5
Overseas	corporation tax	8.3	10.4
	adjustments in respect of prior years	(23.2)	–
		(14.9)	10.4
Tax on share of profits of joint ventures and associates		0.2	2.3
Total current tax		(28.2)	28.2
Deferred tax			
	origination and reversal of timing differences	5.6	4.8
	adjustments in respect of prior years	(6.9)	(8.3)
Total deferred tax		(1.3)	(3.5)
Tax on (loss)/profit on ordinary activities		(29.5)	24.7

b Tax reconciliation

	2002 £m	Restated 2001 £m
(Loss)/profit on ordinary activities before tax	(72.8)	62.3
Expected tax (credit)/charge at 30%	(21.8)	18.7
Reconciling items:		
Expenses not deductible for tax purposes	3.1	3.7
Lower rates of tax suffered on overseas earnings	(5.4)	(11.3)
Losses for which tax relief is not available	20.6	13.3
Utilisation of overseas brought forward losses	(2.5)	–
Adjustments to UK tax charge in respect of previous periods	(5.6)	(4.0)
Release of overseas tax provisions no longer required	(21.3)	–
Rate impact of Tonnage Tax	(1.5)	–
Non-equity minority interests	(4.7)	(4.7)
Goodwill not deductible for tax purposes	9.6	9.0
Actual tax (credit)/charge	(29.5)	24.7

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.

8 (Loss)/profit for the financial year

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 £54.8m (2001 restated: profit of £5.8m).

9 Dividends

	2002 £m	2001 £m
Equity dividends: ordinary		
Interim dividend of 2.00p per share paid 19 June 2002 (2001: 2.00p)	9.8	9.8
Final dividend of nil p per share (2001: 7.50p)	–	36.9
Dividends paid and proposed to be paid to Employee Share Ownership Plan Trusts (ESOP) shares	–	(0.1)
	9.8	46.6

Notes to the accounts continued

10 (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held in the employee share ownership trusts.

For diluted (loss)/earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's shares during the year and the conversion of the Convertible Bonds.

Supplementary (loss)/earnings 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 year on a like-for-like basis.

	(Loss)/ earnings £m	2002 Weighted average number of shares millions*	Per share amount p	Restated Earnings £m	2001 Weighted average number of shares millions*	Restated Per share amount p
Basic (loss)/earnings per share						
(Loss)/profit attributable to ordinary shareholders	(60.1)	492.1	(12.22)	17.4	490.2	3.55
Effect of dilutive securities:						
Options**	–	–	–	–	2.1	(0.02)
Convertible Bonds***	–	–	–	–	–	–
Diluted (loss)/earnings per share						
Adjusted (loss)/profit	(60.1)	492.1	(12.22)	17.4	492.3	3.53

* The number of shares has been reduced by 1.8m being the weighted average number of shares held by the employee share ownership trusts (2001: 1.8m).

** Options are antidilutive in 2002 and have been ignored in the calculation of diluted loss per share for 2002.

*** The Convertible Bonds are antidilutive and have been ignored in the calculation of diluted (loss)/earnings per share for both years.

	(Loss)/ earnings £m	2002 Weighted average number of shares millions*	Per share amount p	Restated Earnings £m	2001 Weighted average number of shares millions*	Restated Per share amount p
Supplementary (loss)/earnings per share to exclude goodwill amortisation and exceptional items						
Basic (loss)/earnings per share	(60.1)	492.1	(12.22)	17.4	490.2	3.55
Effect of goodwill amortisation	32.5	–	6.60	31.8	–	6.50
Basic (loss)/earnings per share pre-goodwill amortisation	(27.6)	492.1	(5.62)	49.2	490.2	10.05
Exceptional items (including tax effect of £6.1m; 2001: £nil)	22.3	–	4.54	16.7	–	3.40
Basic (loss)/earnings per share pre-goodwill amortisation and exceptional items	(5.3)	492.1	(1.08)	65.9	490.2	13.45
Diluted (loss)/earnings per share	(60.1)	492.1	(12.22)	17.4	492.3	3.53
Effect of goodwill amortisation	32.5	–	6.60	31.8	–	6.46
Diluted (loss)/earnings per share pre-goodwill amortisation	(27.6)	492.1	(5.62)	49.2	492.3	9.99
Exceptional items (including tax effect of £6.1m; 2001: £nil)	22.3	–	4.54	16.7	–	3.39
Diluted (loss)/earnings per share pre-goodwill amortisation and exceptional items	(5.3)	492.1	(1.08)	65.9	492.3	13.38

11 Prior year adjustment

Having undertaken a comprehensive review of accounting policies to consider their continuing appropriateness under Financial Reporting Standard No.18 - Accounting Policies, the Directors have concluded that certain changes should be made in the areas of revenue recognition and cost deferrals. The policies which have changed are those relating to revenue recognition for commission earned on sales made by the Group's retail operations, the treatment of holiday insurance and indirect selling costs relating to future seasons. The Directors consider that the revised policies are the most appropriate for the Group.

In respect of the retail business, the Group had previously recognised commission and profits on holiday insurance on sales made through its retail operations at the dates on which the related holidays were booked or policies were provided. The new policy moves the revenue recognition date to the date of departure for sales made of in-house leisure travel products and to the date of full receipt of cash for sales of third party leisure travel products.

Indirect selling costs relating to future seasons which were previously deferred are now charged to the profit and loss account as incurred.

11 Prior year adjustment continued

A further change in accounting policy has been necessary to comply with Financial Reporting Standard No.19 - Deferred Tax, which applies to the Group's financial statements for the first time this year. This standard requires the Group to make provision for deferred tax on all timing differences which have originated but not reversed at the balance sheet date which result in an obligation to pay more tax, or a right to pay less tax, in the future. Previously provision was required only to the extent that timing differences were expected to reverse in the forseeable future.

The prior year accounts have been restated accordingly to reflect these changes in accounting policy.

The effect of the changes are set out below:

	Group			
	2002 £m	Total Prior Year £m	2001 £m	Pre 2001 £m
Increase in loss/increase/(decrease) in profit before tax				
Retail commission	(14.3)	(48.5)	(11.0)	(37.5)
Free holiday insurance	(3.8)	(14.6)	0.4	(15.0)
Deferred indirect selling costs	(2.2)	(17.9)	(8.4)	(9.5)
	(20.3)	(81.0)	(19.0)	(62.0)
Tax credit/(charge)				
Tax effect of above changes	4.5	22.0	4.7	17.3
FRS 19 Deferred tax	–	(8.0)	0.9	(8.9)
	4.5	14.0	5.6	8.4
Decrease in reserves	(15.8)	(67.0)	(13.4)	(53.6)

	Company			
	2002 £m	Total Prior Year £m	2001 £m	Pre 2001 £m
Increase in loss/decrease in profit before tax				
Deferred indirect selling costs	(1.2)	(1.5)	(1.5)	–
	(1.2)	(1.5)	(1.5)	–
Tax credit/(charge)				
Tax effect of above changes	0.4	0.5	0.5	–
	0.4	0.5	0.5	–
Decrease in reserves	(0.8)	(1.0)	(1.0)	–

	Group			Company		
	Restated 2001 £m	Adjustments 2001 £m	As reported 2001 £m	Restated 2001 £m	Adjustments 2001 £m	As reported 2001 £m
Balance sheet						
Debtors: amounts falling due within one year	591.1	(66.4)	657.5	1,835.4	(1.0)	1,836.4
Creditors: amounts falling due within one year	(1,212.9)	(9.6)	(1,203.3)	(1,894.7)	–	(1,894.7)
Deferred tax	(49.8)	9.0	(58.8)	8.8	–	8.8
Decrease in net assets		(67.0)			(1.0)	

12 Intangible assets – goodwill

	Group £m	Company £m
Cost		
At 1 October 2001	589.4	0.5
Additions (see note 14)	2.4	–
Adjustments to provisional fair values (see note 14)	(0.2)	–
Adjustments to deferred consideration (see note 14)	(3.9)	–
Disposals (see note 14)	(2.4)	–
Exchange differences	(20.2)	–
At 30 September 2002	565.1	0.5
Amortisation		
At 1 October 2001	49.2	–
Provided in year	30.7	–
Disposals (see note 14)	(2.0)	–
Exchange differences	(3.2)	–
At 30 September 2002	74.7	–
Net book value at 30 September 2002	490.4	0.5
Net book value at 30 September 2001	540.2	0.5

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

Notes to the accounts continued

13 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 2001	742.4	124.0	56.0	236.4	60.2	265.8
Additions	195.3	2.2	6.3	136.6	2.6	47.6
Acquisition of subsidiary undertakings	0.1	–	–	–	–	0.1
Reclassifications	–	(6.8)	1.0	–	–	5.8
Exchange differences	(4.4)	(0.2)	0.3	(3.0)	(0.2)	(1.3)
Disposals	(136.9)	(10.0)	(8.9)	(58.3)	–	(59.7)
Disposal of subsidiary undertakings	(30.7)	(0.4)	–	–	–	(30.3)
At 30 September 2002	765.8	108.8	54.7	311.7	62.6	228.0
Depreciation						
At 1 October 2001	311.3	22.8	23.8	107.3	22.0	135.4
Reclassifications	–	(0.2)	(0.1)	–	–	0.3
Provided in year	74.6	2.7	4.1	26.0	5.0	36.8
Exchange differences	(1.9)	–	0.2	(0.8)	(0.1)	(1.2)
Disposals	(96.1)	(3.1)	(3.0)	(37.9)	–	(52.1)
Disposal of subsidiary undertakings	(11.7)	(0.2)	–	–	–	(11.5)
At 30 September 2002	276.2	22.0	25.0	94.6	26.9	107.7
Net book value at 30 September 2002	489.6	86.8	29.7	217.1	35.7	120.3
Net book value at 30 September 2001	431.1	101.2	32.2	129.1	38.2	130.4

	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 2001	117.8	2.6	2.6	–	–	112.6
Additions	20.7	–	–	–	–	20.7
Transfers to subsidiary undertaking	(0.3)	–	–	–	–	(0.3)
Disposals	(45.1)	0.5	(0.6)	–	–	(45.0)
Disposal of business	(29.7)	–	–	–	–	(29.7)
At 30 September 2002	63.4	3.1	2.0	–	–	58.3
Depreciation						
At 1 October 2001	59.9	0.1	1.2	–	–	58.6
Provided in year	11.8	–	0.2	–	–	11.6
Transfer to subsidiary undertaking	(0.1)	–	–	–	–	(0.1)
Disposals	(42.9)	0.4	(0.8)	–	–	(42.5)
Disposal of business	(11.1)	–	–	–	–	(11.1)
At 30 September 2002	17.6	0.5	0.6	–	–	16.5
Net book value at 30 September 2002	45.8	2.6	1.4	–	–	41.8
Net book value at 30 September 2001	57.9	2.5	1.4	–	–	54.0

Freehold land, amounting to £23.8m (2001: £24.7m) for the Group and £2.6m (2001: £2.6m) for the Company, has not been depreciated.

The cost of tangible fixed assets stated above includes capitalised interest of £8.7m for the Group (2001: £7.9m) and £0.3m for the Company (2001: £0.3m).

	Group 2002 £m	*Group* 2001 £m	*Company* 2002 £m	*Company* 2001 £m
The net book value of assets held under finance leases, included above is made up as follows:				
Land and buildings	–	3.0	–	–
Aircraft spares	124.6	11.7	–	–
Cruise ships	24.4	27.5	–	–
Other fixed assets	5.9	1.3	5.9	–
	154.9	43.5	5.9	–

14 Fixed asset investments

	Total £m	Own shares held under trust £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Group						
Cost						
At 1 October 2001	53.5	8.7	–	17.1	17.7	10.0
Additions	2.0	1.6	–	0.1	–	0.3
Exchange differences	0.4	–	–	0.2	0.1	0.1
Transfers to participants	(0.1)	(0.1)	–	–	–	–
Disposals	(0.4)	–	–	–	–	(0.4)
Dividends received from joint ventures and associated undertakings	(2.9)	–	–	(2.2)	(0.7)	–
Share of profits	5.6	–	–	4.3	1.3	–
At 30 September 2002	58.1	10.2	–	19.5	18.4	10.0
Amounts written off or provided						
At 1 October 2001	5.5	5.3	–	–	–	0.2
Written off or provided in the year	3.0	2.7	–	–	–	0.3
At 30 September 2002	8.5	8.0	–	–	–	0.5
Goodwill						
At 1 October 2001	35.7	–	–	23.5	12.2	–
Adjustment to fair values	0.1	–	–	–	0.1	–
Exchange differences	(0.1)	–	–	(0.1)	–	–
Amortisation	(1.8)	–	–	(1.2)	(0.6)	–
At 30 September 2002	33.9	–	–	22.2	11.7	–
Net book value at 30 September 2002	83.5	2.2	–	41.7	30.1	9.5
Net book value at 30 September 2001	83.7	3.4	–	40.6	29.9	9.8

	Total £m	Own shares held under trust £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Company						
Cost						
At 1 October 2001	653.5	5.5	619.2	28.8	–	–
Additions	100.1	–	100.1	–	–	–
Disposals	(99.5)	–	(99.5)	–	–	–
At 30 September 2002	654.1	5.5	619.8	28.8	–	–
Amounts written off or provided						
At 1 October 2001	2.2	2.2	–	–	–	–
Written off or provided in the year	2.1	2.1	–	–	–	–
At 30 September 2002	4.3	4.3	–	–	–	–
Net book value at 30 September 2002	649.8	1.2	619.8	28.8	–	–
Net book value at 30 September 2001	651.3	3.3	619.2	28.8	–	–

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.

The number of shares held at 30 September 2002 by Airtours Trustee Limited and Mourant & Co Trustees Limited was 1,044,888 (2001: 44,118) and 1,612,500 (2001: 1,612,500) respectively. These shares had a market value at that date of £2.2m (2001: £2.7m).

14 Fixed asset investments continued

Subsidiary undertakings

A list of principal subsidiary, joint venture and associated undertakings is shown in note 33 to the accounts on pages 48 and 49. All of the subsidiary undertakings have been consolidated in the Group accounts.

On 12 October 2001, the Group acquired for a consideration of £1.3m the brand name and retail outlets of NBBS, a tour operator based in The Netherlands. The goodwill attributable to the acquisition was £1.2m. Assets acquired consisted of tangible fixed assets of £0.1m.

Whilst not disclosed as provisional in the prior year, following a review of the provisional fair values attributed to the net tangible assets at acquisition of Itaka, a tour operator based in Poland acquired by our Scandinavian business in 2001, the fair value of the assets acquired has been reduced by £0.6m. This adjustment relates principally to tangible fixed assets. This is offset by further adjustments to the purchase consideration payable, resulting in an overall increase in goodwill of £0.3m.

On 24 April 2002, the Group acquired the remaining issued share capital of Servicios de Administracion y Operacion de Hoteles S.A., de CV, the operators of the Blue Bay Resorts chain. The consideration for the outstanding 10% of share capital acquired was £0.3m, resulting in additional goodwill of £0.3m. An additional payment of unprovided deferred consideration of £0.3m relating to the first tranche of shares acquired was also made during the year. The total goodwill arising on the three tranches of shares acquired was £7.0m.

Other additions to goodwill in the year amounted to £0.6m.

Based on the results achieved and expectations of future performance, the provisions for deferred consideration relating to the retail businesses acquired in Canada in 2001 have been reduced by £4.2m. Further adjustments to the fair values of the assets acquired relating to these retail businesses have also been made resulting in an increase in goodwill of £0.2m.

On 30 September 2002, MyTravel Germany disposed of the businesses and assets of Siva Sunbeach for a consideration of £0.5m. A loss on disposal of £0.2m arose on the transaction after the inclusion of attributable goodwill of £0.4m.

On 28 September 2002, the Group disposed of its interests in the Eurosites camping division for a consideration of £30.2m. The profit on disposal of Eurosites is made up as follows:

	2002 £m
Disposal proceeds	30.2
Expenses	(0.5)
Net disposal proceeds	29.7
Net assets at date of disposal	20.1
Goodwill on acquisition	–
Profit on disposal	9.6

Eurosites contributed turnover of £30.1m and profit before tax of £4.9m to the Group's results in the year.

Joint venture undertakings The investment in joint venture undertakings at 30 September 2002 represents a 50% interest in Hotetur Club, SL, 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 at 30 September 2002 is made up as follows:

	2002 £m	2001 £m
Fixed assets	56.2	56.4
Current assets	14.6	16.6
Gross assets	70.8	73.0
Liabilities due within one year	(12.8)	(18.8)
Liabilities due after one year	(38.5)	(37.1)
Total net assets	19.5	17.1

Associated undertakings The investment in associated undertakings at 30 September 2002 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 and warrants over 5,160,000 shares exercisable in October 2004 at a price of 75 Cypriot cents. The market value of our investment at 30 September 2002 was £15.8m. The goodwill arising on the acquisition of the investment in Aqua Sol has been increased by £0.1m. This reflects adjustments to the fair value of tangible fixed assets.

Other investments Other investments in 2002 and 2001 are all unlisted and included at cost less provision for impairment.

15 Stocks

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Vacation Ownership apartments held for resale	0.6	0.6	–	–
Goods held for resale	11.0	10.7	4.5	4.2
Consumables	2.4	2.0	–	–
	14.0	13.3	4.5	4.2

16 Debtors: amounts falling due within one year

	Group 2002 £m	Restated Group 2001 £m	Company 2002 £m	Restated Company 2001 £m
Trade debtors	136.3	83.6	5.7	0.8
Amounts owed by subsidiary undertakings	–	–	1,455.2	1,583.7
Amounts owed by joint venture and associated undertakings	1.5	19.3	0.7	19.2
Current and deferred tax	–	–	12.2	4.2
Other debtors	84.0	107.3	11.8	25.7
Deposits and prepayments	334.2	380.9	189.9	201.8
	556.0	591.1	1,675.5	1,835.4

17 Debtors: amounts falling due after one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts owed by associated undertakings	18.9	18.6	–	–
Other debtors	39.9	48.9	2.2	1.5
Deposits and prepayments	109.4	113.5	60.0	74.2
	168.2	181.0	62.2	75.7

18 Cash and deposits

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Cash at bank and in hand	170.0	176.2	23.5	24.2
Term deposits	122.7	202.4	76.2	46.4
	292.7	378.6	99.7	70.6

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

Included within the above balances is an amount of £38.5m (2001: £35.7m) 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 £54.9m (2001: £59.6m) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company. Since 30 September 2002, £10.0m of the insurance cash has been remitted to MyTravel Group plc. These balances are considered to be restricted.

19 Creditors: amounts falling due within one year

	Group 2002 £m	Restated Group 2001 £m	Company 2002 £m	Company 2001 £m
Loans and overdrafts (see note 20)	2.3	16.9	–	13.7
Trade creditors	454.4	367.2	71.2	76.5
Amounts owed to subsidiary undertakings	–	–	1,621.4	1,581.4
Amounts owed to joint venture undertakings	4.0	0.7	3.6	0.7
Current tax	24.7	66.2	–	–
Social security and other taxes	14.6	17.2	1.0	7.6
Other creditors	65.7	49.9	15.6	8.7
Dividends	–	37.0	–	37.0
Accruals and deferred income	293.0	330.2	33.3	37.0
Amounts due under finance leases (see note 20)	21.2	10.4	1.4	–
Revenue received in advance	285.5	317.2	97.9	132.1
	1,165.4	1,212.9	1,845.4	1,894.7

Notes to the accounts continued

20 Creditors: amounts falling due after one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Convertible debt				
5.75% Subordinated Convertible Bonds due 2004	219.9	271.3	219.9	271.3
Long term borrowing				
US$ 30 million of 7.48% unsecured senior notes repayable 2006	19.1	20.4	19.1	20.4
US$ 40 million of 8.11% unsecured senior notes repayable 2008	25.4	27.2	25.4	27.2
US$ 30 million of 8.32% unsecured senior notes repayable 2011	19.1	20.4	19.1	20.4
	63.6	68.0	63.6	68.0
Other creditors				
Trade creditors	1.0	0.8	–	–
Other creditors	2.0	27.9	–	–
Accruals and deferred income	46.6	60.6	3.2	3.9
Amounts due under finance leases	115.6	32.0	3.8	–
	228.8	189.3	70.6	71.9
	448.7	460.6	290.5	343.2
Loans and overdrafts				
Long term borrowings	63.6	68.0	63.6	68.0
Bank loans	–	13.0	–	13.0
Overdrafts	–	0.2	–	–
Unsecured loan notes	2.3	3.7	–	0.7
	65.9	84.9	63.6	81.7
Less: amounts falling due within one year	(2.3)	(16.9)	–	(13.7)
Amounts falling due after one year	63.6	68.0	63.6	68.0
Analysis of repayments				
Between one and two years	–	–	–	–
Between two and five years	19.1	20.4	19.1	20.4
After five years	44.5	47.6	44.5	47.6
	63.6	68.0	63.6	68.0

The £219.9m (2001: £271.3m) unsecured 5.75% Subordinated Convertible Bonds due 2004 are stated net of unamortised issue costs of £1.7m (2001: £3.7m).

The bonds can be converted at the option of the bondholder at any time between 31 January 1999 and 31 December 2003 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.

Interest is payable on the bonds at an annual rate of 5.75% per annum, payable semi-annually in arrears. The total issue costs of the bonds amounted to £9.1m.

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) affected 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.

20 Creditors: amounts falling due after one year continued

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. During the year the Company purchased £53.4m (2001: £16.0m) of the bonds in the open market and such bonds have now been cancelled.

Unless previously purchased, redeemed or converted the bonds will be redeemed at their principal amount on 5 January 2004, being the final maturity date.

On 21 March 2000 the Company entered into a multi-currency unsecured revolving loan facility of £250m. The original term of the facility was three years. Amounts drawn down under the facility during the financial year were charged to interest at a rate of LIBOR plus 0.4% per annum over an interest period as determined by the two parties. At 30 September 2002 and 30 September 2001, no amount had been drawn down under the facility. On 27 November 2002, the £250m facility was extended on revised terms to 31 December 2003. 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 bank loan of £nil (2001: £13.0m) was an unsecured sterling loan, with a floating interest rate and was fully repaid during March 2002.

In July 2001 the Company issued $100m of unsecured senior loan notes in the US private placement market. The notes carry fixed terms and are repayable in three tranches after five, seven and ten years. Each tranche bears a fixed coupon rate of interest which is payable semi-annually. The average coupon rate of the issues is 7.84%.

The £2.3m (2001: £2.9m) 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 of Barclays Bank plc.

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Finance leases				
Total outstanding	136.8	42.4	5.2	–
Less: amounts falling due within one year	(21.2)	(10.4)	(1.4)	–
Amounts falling due after one year	115.6	32.0	3.8	–
Analysis of repayments				
Between one and two years	22.3	11.2	1.4	–
Between two and five years	37.9	20.8	2.4	–
After five years	55.4	–	–	–
	115.6	32.0	3.8	–

21 Derivatives and other financial instruments

The Group's policies as regards derivatives and financial instruments are set out in the Operational and financial review on pages 4 to 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 30 September 2002 and at 30 September 2001 was as follows:

	2002 £m	2001 £m
In one year or less	23.5	27.3
In more than one year but not more than two years	243.9	11.3
In more than two years but not more than five years	57.0	316.1
In more than five years	99.9	47.6
	424.3	402.3

Borrowing facilities The Group had £250.0m of undrawn committed borrowing facilities at 30 September 2002 (2001: £250.0m). Details of these facilities, which mature on 31 December 2003, are set out in note 20.

21 Derivatives and other financial instruments continued

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 2002 £m	Floating rate £m	Fixed rate £m	Total 2001 £m	Floating rate £m	Fixed rate £m
Sterling	360.7	139.1	221.6	331.4	56.4	275.0
US Dollar	63.6	–	63.6	68.0	–	68.0
Swedish Krona	–	–	–	2.9	2.9	–
Total	424.3	139.1	285.2	402.3	59.3	343.0

The Sterling 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 Swedish Krona floating rate financial liabilities in 2001 comprised a finance lease liability bearing interest at rates based on STIBOR fixed quarterly in advance.

The interest rate on the fixed rate sterling financial liabilities, being the Subordinated Convertible Bonds due 2004, is 5.75% per annum for the duration of their life. Details relating to the conversion and redemption of the bonds are set out in note 20 to the accounts.

The weighted average interest rate on the fixed rate US Dollar liabilities, being the senior unsecured loan notes, is 7.85%. The weighted average term to maturity is 6.3 years (2001: 7.3 years).

Financial assets

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

Currency	Total 2002 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m	Total 2001 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m
Sterling	135.2	121.9	8.1	5.2	193.0	180.4	7.9	4.7
US Dollar	75.9	69.3	6.6	–	70.0	63.0	7.0	–
Japanese Yen	–	–	–	–	49.8	49.8	–	–
Euro	48.0	47.7	–	0.3	49.5	49.2	–	0.3
Swedish Krona	4.1	4.0	–	0.1	6.6	6.2	–	0.4
Danish Krone	2.1	2.1	–	–	4.7	4.7	–	–
Swiss Franc	3.7	3.7	–	–	3.2	3.2	–	–
Canadian Dollar	35.1	35.1	–	–	21.1	21.1	–	–
Other	8.9	8.9	–	–	7.3	7.3	–	–
Total	313.0	292.7	14.7	5.6	405.2	384.9	14.9	5.4

Financial assets comprise cash and deposits of £292.7m (2001: £378.6m), fixed asset investments other than associates and joint ventures of £11.7m (2001: £13.2m), and other debtors due in more than one year of £6.6m (2001: £13.4m). Fixed rate Sterling investments of £8.1m (2001: £7.9m) comprise loan notes issued by NATS. The loan notes bear interest at a rate of 8% or 11% and have an average coupon rate of 8.4% and no maturity period. Non-interest bearing assets, other than £1.4m (2001: £1.9m) of unlisted shares, are fully liquid and have no maturity period.

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 3.0% and 12 days (2001: 3.45% and 50 days). The weighted average rate for floating rate deposits was 3.4% (2001: 5.0%).

21 Derivatives and other financial instruments continued

Currency exposures The main functional currencies of the Group are Sterling, US Dollar and Euro (including the various legacy currencies). 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.

	Total 2002 £m	US Dollar £m	Other European currencies £m	Total 2001 £m	US Dollar £m	Other European currencies £m
Functional currency						
Sterling	1.6	7.4	(5.8)	8.6	4.4	4.2

At 30 September 2002, 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 30 September 2002.

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 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	23.5	23.5	27.3	27.3
Long term borrowings	400.8	372.5	375.0	315.0
Financial assets	318.2	318.2	405.2	405.2
Derivative financial instruments held to manage the interest rate, fuel and currency profile				
Forward rate agreements and interest rate swaps	–	(16.6)	–	(11.4)
Forward fuel contracts	–	23.3	–	(12.7)
Forward foreign currency contracts and options	3.1	(50.6)	3.9	15.0

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 £5,400.9m (2001: £5,324.3m) 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 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:

	2002			2001		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges at 1 October 2001/2000	57.8	(66.9)	(9.1)	102.9	(46.9)	56.0
Gains and losses recognised in the year arising in previous years	(50.1)	54.6	4.5	(95.9)	44.5	(51.4)
Gains and losses arising in previous years not recognised in the year	7.7	(12.3)	(4.6)	7.0	(2.4)	4.6
Gains and losses not recognised in the year arising in the year	73.7	(113.0)	(39.3)	50.8	(64.5)	(13.7)
Unrecognised gains and losses at 30 September 2002/2001	81.4	(125.3)	(43.9)	57.8	(66.9)	(9.1)
Of which:						
Gains and losses expected to be recognised:						
in the year ending 30 September 2003/2002	73.4	(103.2)	(29.8)	50.1	(54.6)	(4.5)
after 30 September 2003/2002	8.0	(22.1)	(14.1)	7.7	(12.3)	(4.6)
	81.4	(125.3)	(43.9)	57.8	(66.9)	(9.1)

22 Provisions for liabilities and charges

	Group 2002 £m	Restated Group 2001 £m	Company 2002 £m	Company 2001 £m
Deferred tax	64.1	49.8	13.8	8.8
Other provisions	29.5	40.8	–	–
	93.6	90.6	13.8	8.8

Deferred tax	Group 2002 £m	Restated Group 2001 £m	Company 2002 £m	Company 2001 £m
At 1 October	49.8	58.5	8.8	–
(Credited)/charged during the year	(1.3)	(7.2)	5.0	11.5
Transferred from debtors	–	–	–	(2.7)
Reclassification from corporation tax	14.0	–	–	–
Acquired with subsidiary undertaking	–	–	–	–
Disposal of subsidiary undertakings	–	(1.4)	–	–
Exchange differences	1.6	(0.1)	–	–
At 30 September	64.1	49.8	13.8	8.8

As explained in note 11, the deferred tax balance for 2001 has been restated to reflect the requirements of FRS 19, Deferred tax, which requires, subject to certain exemptions, that deferred tax be recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

Deferred tax provided relates to the following timing differences:

	Group 2002 £m	Restated Group 2001 £m	Company 2002 £m	Company 2001 £m
Accelerated capital allowances	55.2	55.5	0.6	(1.3)
Short term timing differences	27.4	11.3	13.2	10.1
	82.6	66.8	13.8	8.8
Losses carried forward	(18.5)	(17.0)	–	–
	64.1	49.8	13.8	8.8

The deferred tax asset relates to losses carried forward recognised in 2002 which are expected to be recoverable against profits in the coming year.

Other provisions	Total 2002 £m	Total 2001 £m	Pension provisions 2002 £m	Pension provisions 2001 £m	Aircraft maintenance provisions 2002 £m	Aircraft maintenance provisions 2001 £m
At 1 October	40.8	50.5	6.8	7.8	34.0	42.7
Provided during the year	38.6	34.7	1.2	0.6	37.4	34.1
Disposal of subsidiary undertaking	–	(0.7)	–	(0.7)	–	–
	79.4	84.5	8.0	7.7	71.4	76.8
Utilised in the year	(50.6)	(43.7)	–	(0.3)	(50.6)	(43.4)
Exchange differences	0.7	–	0.5	(0.6)	0.2	0.6
At 30 September	29.5	40.8	8.5	6.8	21.0	34.0

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 contracted maintenance on leased aircraft and spares used by the Group's airlines. This expenditure arises at different times over the life of the aircraft.

23 Share capital

	2002 £m	2001 £m
Authorised		
736,275,000 (2001: 736,275,000) ordinary shares of 10p each	73.6	73.6

	2002 £m	2001 £m
Allotted, called up and fully paid		
494,900,707 (2001: 492,737,207) ordinary shares of 10p each	49.5	49.3

Allotments during the year During the year 310,000 ordinary shares were allotted under the terms of the MyTravel Group plc share option scheme (1986) for an aggregate cash consideration of £435,505 and 1,853,500 ordinary shares were allotted to Airtours Quest Trustee Limited for an aggregate cash consideration of £4,218,813 for transfer on to those members of the MyTravel Group plc SAYE schemes who exercised their options.

Contingent rights to the allotment of shares Under the terms of the MyTravel Group plc SAYE scheme 1999 options over 11,106,184 ordinary shares of 10p each were granted to certain employees within the Group at £1.26 per share exercisable normally between 1 August 2005 and 31 January 2006 in the case of three year options and 1 August 2007 and 31 January 2008 in the case of five year options.

At 30 September 2002 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
9 August 1993	124.64p	91,215	–	–
5 August 1994	149.50p	555,000	–	–
14 July 1995	135.67p	240,000	–	–
10 January 1997	194.70p	–	–	53,124
30 March 1999	395.00p	–	–	286,506
18 August 1999	421.50p	–	1,699,710	–
14 January 2000	402.00p	–	111,608	–
16 March 2000	203.14p	–	–	2,079,061
17 March 2000	290.50p	–	317,008	–
29 November 2000	207.50p	–	9,570,735	–
16 March 2001	287.50p	–	441,728	–
21 June 2001	234.20p	–	–	743,502
21 December 2001	244.00p	–	779,660	–
30 May 2002	157.00p	–	2,434,817	–
25 June 2002	125.60p	–	–	10,909,351

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 five years and five years and six months following the commencement date of the savings contract for options granted in 1997.
	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 for options granted under the terms of the MyTravel Group plc SAYE Scheme 1999.

24 Reserves

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 1 October 2001	109.5	3.2	18.0	132.3
Prior year adjustment	–	–	–	(67.0)
At 1 October 2001 (as restated)	109.5	3.2	18.0	65.3
Transfer to profit and loss account	–	–	–	(69.9)
Premium on allotments during the year	3.8	–	–	–
Transfer in respect of QUEST	0.6	–	–	(0.6)
Exchange differences	–	–	–	(2.9)
At 30 September 2002	113.9	3.2	18.0	(8.1)

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Company				
At 1 October 2001	109.5	3.2	153.6	134.3
Prior year adjustment	–	–	–	(1.0)
At 1 October 2001 (as restated)	109.5	3.2	153.6	133.3
Transfer to profit and loss account	–	–	–	(64.6)
Premium on allotments during the year	3.8	–	–	–
Transfer in respect of QUEST	0.6	–	–	(0.6)
At 30 September 2002	113.9	3.2	153.6	68.1

During the year ended 30 September 2002, the Company received £4,218,300 (2001: £278,000) from the issue of shares in respect of the exercise of options under the MyTravel Group plc SAYE schemes administered by the Qualifying Share Ownership Trust (QUEST). Employees paid £3,614,200 (2001: £217,800) to the Company for the issue of these shares and the balance of £604,100 (2001: £60,200) comprised contributions to the QUEST from the Company and is shown as a transfer from the profit and loss account reserve to the share premium account.

Of the Company's reserves £68.1m (2001 restated: £133.3m) are regarded as distributable. All other reserves are considered to be non-distributable.

The cumulative amount of goodwill arising from acquisitions in prior years which has been written off to Group reserves amounts to £432.8m (2001: £432.8m).

The gain on translation of long term foreign currency borrowings by the Group was £4.4m (2001: £1.6m), all of which was taken to reserves, as these borrowings were used to hedge assets and liabilities in the same currencies.

25 Non-equity minority interests

	Group 2002 £m	Group 2001 £m
Profit and loss account		
Preference dividend		
Paid during year	15.8	15.8
Accrual carried forward	1.4	1.4
Accrual brought forward	(1.4)	(1.5)
Costs amortised in year	0.9	1.0
	16.7	16.7
Balance sheet		
Cumulative undated preference shares at 1 October	210.0	210.0
Dividend accrual	1.4	1.4
	211.4	211.4
Issue costs at 1 October	2.9	3.9
Amortised in year	(1.0)	(1.0)
	1.9	2.9
At 30 September	209.5	208.5

The 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 November 2004.

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.

26 Reconciliation of operating (loss)/profit to operating cash flows

	2002 £m	Restated 2001 £m
Operating (loss)/profit	(92.1)	52.9
Depreciation charges	74.6	73.8
Goodwill amortisation	30.7	30.1
Provision against fixed asset investments	3.0	0.3
(Increase)/decrease in stocks	(0.5)	3.1
Decrease/(increase) in debtors	10.9	(36.3)
Increase/(decrease) in creditors	9.3	(89.8)
Decrease in provisions	(12.0)	(9.0)
Cash impact of the termination of operations	(1.8)	(17.2)
Cash impact of the fundamental reorganisation	(12.2)	(18.4)
Net cash inflow/(outflow) from operating activities	9.9	(10.5)

The cash flow effect of the subsidiary undertakings acquired and disposed of during the year is set out in note 28 to the accounts.

27 Analysis of net debt

	At 1 October 2001 £m	Cash (outflow)/ inflow £m	Acquisitions £m	Other non-cash changes £m	Exchange movements £m	At 30 September 2002 £m
Cash at bank and in hand	176.2	(41.0)	–	–	34.8	170.0
Term deposits	202.4	(79.7)	–	–	–	122.7
Cash and deposits	378.6	(120.7)	–	–	34.8	292.7
Overdrafts	(0.2)	0.2	–	–	–	–
Debt due within one year	(16.7)	14.3	–	–	0.1	(2.3)
Debt due after one year	(343.0)	45.0	–	8.4	4.4	(285.2)
Issue costs of Convertible Bonds due 2004	3.7	–	–	(2.0)	–	1.7
Finance leases	(42.4)	18.8	–	(122.4)	9.2	(136.8)
	(20.0)	(42.4)	–	(116.0)	48.5	(129.9)

28 Effects of acquisitions, disposals and closures

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

	Acquisitions £m	Disposals £m	Total £m
Net cash (outflow)/inflow from operating activities	(2.3)	2.7	0.4
Returns on investments and servicing of finance	(0.1)	–	(0.1)
Tax received	–	0.1	0.1
Capital expenditure and financial investment	(0.4)	(5.0)	(5.4)
Decrease in cash in the year	(2.8)	(2.2)	(5.0)

29 Financial commitments

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Capital commitments are as follows:				
Contracted but not provided in these accounts	17.2	8.2	1.4	3.3

In addition to those noted above, the Group's share of the capital commitments of its joint venture undertakings at 30 September 2002 was £2.2m (2001: £1.8m)

	Land and buildings 2002 £m	Land and buildings 2001 £m	Aircraft and aircraft spares 2002 £m	Aircraft and aircraft spares 2001 £m	Other 2002 £m	Other 2001 £m
Annual commitments under non-cancellable operating leases are as follows:						
Group						
Expiring in one year or less	3.2	4.9	13.1	3.5	1.2	2.4
Expiring between one and five years	20.8	18.1	70.2	72.3	12.5	8.4
Expiring in five years or more	43.5	38.3	19.4	55.1	8.3	5.8
	67.5	61.3	102.7	130.9	22.0	16.6
Company						
Expiring in one year or less	0.4	–	–	–	0.3	–
Expiring between one and five years	0.5	0.3	–	–	3.8	3.4
Expiring in five years or more	0.6	1.1	–	–	6.3	5.4
	1.5	1.4	–	–	10.4	8.8

30 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 year amounted to £4.7m (2001: £5.5m). No amounts were outstanding at the year 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 year for these schemes amounted to £10.4m (2001: £10.4m).

The Group also operates a number of defined benefit pension schemes which can be summarised as follows:

In the UK, Bridge Travel Services Limited operates a 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 last full valuation of this scheme was at 30 November 2001 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 are no separate funds or assets to support the unfunded schemes. Pension obligations are calculated based on actuarial assumptions and the obligations arising are included in the balance sheet at their discounted present value. Valuations for the IPT 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 30 September 2002.

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 2001.

The transitional disclosures required under FRS 17 as at 30 September 2002 are given below. The disclosures required under SSAP 24 together with the FRS 17 requirement relating to the analysis of reserves are not materially different and therefore have not been disclosed.

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:

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

30 Pensions continued

The expected long term rate of return and fair value of the defined benefit schemes within Sweden, Norway and the UK as at 30 September 2002 are as follows:

	Sweden		Norway		UK		
	Expected long term rate of return %	Market value £m	Expected long term rate of return %	Market value £m	Expected long term rate of return %	Market value £m	Total Market value £m
Equities	–	–	7.0	0.7	6.0	2.7	3.4
Bonds	–	–	6.0	1.8	–	–	1.8
Investment property	–	–	7.2	0.4	–	–	0.4
Total market value of assets		–		2.9		2.7	5.6
Present value of scheme liabilities		6.9		3.1		2.5	12.5
(Deficit)/surplus		(6.9)		(0.2)		0.2	(6.9)

Movement in surplus/(deficit)

	Sweden £m	Norway £m	UK £m	Total £m
Deficit at start of year	(6.0)	(0.1)	(1.0)	(7.1)
Current service cost	(0.4)	(0.2)	–	(0.6)
Contributions	0.1	0.1	1.2	1.4
Other finance income	(0.4)	0.1	–	(0.3)
Actuarial gain	0.2	–	–	0.2
Currency movement	(0.4)	(0.1)	–	(0.5)
(Deficit)/surplus at end of year	(6.9)	(0.2)	0.2	(6.9)

The deficit in relation to the Swedish scheme is included in the balance sheet of the Group (see note 22).

Analysis of amounts charged to the profit and loss account

	Sweden £m	Norway £m	UK £m	Total £m
Current service cost	(0.4)	(0.2)	–	(0.6)
Past service costs	–	–	–	–
Total operating costs	(0.4)	(0.2)	–	(0.6)
Expected return on pension scheme assets	–	0.2	–	0.2
Less: interest on pension scheme liabilities	(0.4)	(0.1)	–	(0.5)
Other financial income	(0.4)	0.1	–	(0.3)
Amount included in the Group's profit and loss account	(0.8)	(0.1)	–	(0.9)
Total contributions paid into the scheme in the financial year	0.1	0.1	1.2	1.4

Total recognised gains and losses

	Sweden		Norway		UK		
	%	£m	%	£m	%	£m	Total £m
Actual return less expected return on the pension scheme assets	–	–	(3.0)	(0.1)	–	–	(0.1)
Experience gains and losses arising on the scheme's liabilities	7.0	0.5	3.0	0.1	–	–	0.6
Changes in assumptions underlying the present value of the scheme's liabilities	(4.0)	(0.3)	–	–	–	–	(0.3)
Actuarial gains and losses		0.2		–		–	0.2

Given the size and nature of the Group's defined benefit schemes, it has not been possible to provide prior year comparatives for the above disclosure.

31 Contingent liabilities and guarantees

At 30 September 2002 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 £612.1m (2001: £664.8m). 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 Group is party to several leases for aircraft and cruise ships with a number of lessors. The lease rentals payable under these leases are set at levels which assume that the lessor is able to claim capital allowances on the asset. In the event that the Inland Revenue successfully challenges the lessor's claim to capital allowances, the lease rentals payable would increase accordingly to collect the shortfall over the remaining life of the lease.

The question of whether capital allowances remain available to a lessor of an asset in circumstances where the lessee's obligations under the relevant lease are the subject of defeasance arrangements is currently the subject of litigation. If the Inland Revenue were to prevail in that litigation, and the arrangements in relation to certain of the Group's leased assets were held not to be distinguishable from the arrangements in that case, then the amount claimable by the relevant lessors from the Group in relation to such assets as at 30 September 2002 could be up to £53m, all of which is included in the figures for contingent liabilities referred to above, representing an increment of £15m over the amount payable on early termination.

32 Related party transactions

During the year Airtours Holidays and MyTravel Northern Europe purchased hotel accommodation amounting to £1.0m (2001: £2.4m) from Tenerife Sol, a joint venture undertaking. At 30 September 2002 the outstanding balances payable to Tenerife Sol amounted to £0.1m (2001: £0.2m). Mr B C Sandahl became a Director of Tenerife Sol in February 2002.

Airtours Holidays and MyTravel Northern Europe also purchased hotel accommodation from Hotetur, another joint venture undertaking, amounting to £14.9m (2001: £8.6m). The amount due to Hotetur at 30 September 2002 was £2.4m (2001: £0.3m). Mr R J Carrick and Mr B C Sandahl have been Directors of Hotetur since February 2002.

Furthermore, Airtours Holidays and MyTravel Northern Europe purchased, during the year, hotel accommodation amounting to £10.7m (2001: £8.8m) from Aqua Sol, an associated undertaking. At 30 September 2002 the outstanding balances payable to Aqua Sol amounted to £1.3m (2001: £0.2m).

During the year the Group entered into 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 £0.6m and £0.7m in respect of these agreements. The amounts due from Hotetur in respect of these items at 30 September 2002 were £0.6m and £0.1m respectively.

In 2001, Berge & Meer, an associated undertaking of MyTravel Germany, sold holidays operated by MyTravel Germany amounting to £6.0m. The Group disposed of its investment in Berge & Meer on 25 September 2001.

On 18 September 2001 the Group disposed of its interest in White Horse Mallorca Properties S.L. (WHMP) to Hotetur SL, its 50% joint venture. 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 was repaid in November 2001. Of the remaining amount, £18.9m is repayable in ten equal instalments commencing 1 October 2005 and bears interest at EURIBOR plus 1%. The balance is being amortised against future purchases of hotel accommodation over six years. At 30 September 2002 £7.0m was outstanding (2001: £8.3m).

At 30 September 2001 an additional £0.4m was due from WHMP in respect of management charges incurred whilst WHMP was a wholly owned subsidiary undertaking. During 2002 the Group has provided management services to Hotetur valued at £0.5m (2001: £nil). At 30 September 2002 £0.7m was due from Hotetur in respect of management services. Hotetur provided management services to ABC during the period amounting to £0.4m of which £0.2m was due to Hotetur at 30 September 2002.

33 Principal subsidiary, joint venture and associated undertakings

At 30 September 2002 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	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
	Sunway Travel (Coaching) Limited	England		100
	Leger Holidays Limited	England		100
	Jetset Europe Limited	England		100
	Manos (UK) Limited	England		100
	Nowa Itaka Sp Z.o.o.	Poland		100
	MyTravel Canada Holidays Inc.	Canada		100
	Oy Tjareborg AB	Finland		100
	Sunquest Holidays Inc.	USA		100
	SunTrips Inc.	USA		100
	Tradewinds Worldwide Holidays Limited	England	100	
	V E Holdings Inc.	USA		100
	MyTravel Sweden AB	Sweden		100
	Always AB	Sweden		100
	Ving Norge AS	Norway		100
	Saga Solreiser AS	Norway		100
	Oy Spies Matkat AB	Finland		100
	Tjaereborg Reiser A/S	Denmark		100
	Sunair BV	Holland		100
	Reisbureau Marysol BV	Holland		100
	Travel Trend BV	Holland		100
	MyTravel Poland Sp. Z.o.o.	Poland		100
	Frosch Touristik GmbH	Germany	46	54
Hotel operators	Sunwing AB	Sweden		100
	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 SL	Spain		50
	Airtours Resort Mallorca SL	Spain		100
	Aqua Sol Hotels Limited	Cyprus		19.99

33 Principal subsidiary, joint venture and associated undertakings continued

		Country of incorporation and operation	Proportion held by parent company (%)	Proportion held by the Group (%)
Cruise operators	Sun Cruises Limited	England	100	
Airlines	MyTravel Airways Limited	England		100
	MyTravel Airways A/S	Denmark		100
Travel retailers	Going Places Leisure Travel Limited	England		100
	The Travelworld Group Limited	England		100
	Late Escapes Limited	England		100
	Travel Services International, Inc.	USA		100
	WorldChoiceTravel.com, Inc.	USA		100
	Allkauf Schwinges Reisen GmbH	Germany		100
Agency companies	MyTravel France S.A.	France		100
	MyTravel Portugal – Ayencia de Viagens S.A.	Portugal		100
	Viages Astral 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 Finance Limited	Guernsey	100	
	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
	Carousel Holidays Limited	England	100	
	Grandes Maisons Limited	England		100
	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
	AB9807 Beteiligungsverwaltungs GmbH	Germany		100
	Parkway SA	Luxembourg		100
	MyTravel Northern Europe AB	Sweden		100
	OY SLG Holdings AB	Finland		100
	MyTravel Holdings Norway AS	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

Five year review

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
Profit and loss account					
Group turnover	4,379.2	5,050.8	3,929.9	3,286.7	2,742.6
Operating (loss)/profit pre-goodwill and exceptional items	(20.4)	113.2	58.7	106.8	112.0
(Loss)/profit on ordinary activities before tax, goodwill and exceptional items	(11.9)	110.8	52.0	106.8	113.2
(Loss)/profit on ordinary activities before tax	(72.8)	62.3	186.6	101.2	113.2
Tax (credit)/charge on (loss)/profit on ordinary activities	(29.5)	24.7	18.3	26.9	35.3
(Loss)/profit for the financial year	(60.1)	17.4	153.2	74.5	77.6
Dividends	9.8	46.6	43.9	39.4	36.2
Transfer (from)/to reserves	(69.9)	(29.2)	109.3	35.1	41.4
Balance sheet					
Goodwill	490.4	540.2	534.8	36.9	-
Tangible fixed assets	489.6	431.1	513.5	417.8	310.7
Investments	83.5	83.7	55.3	116.9	82.7
Cash and deposits	292.7	378.6	793.3	554.2	364.2
Stocks	14.0	13.3	17.2	11.4	17.0
Debtors	724.2	772.1	665.2	518.8	391.0
Creditors	1,614.1	1,673.5	1,979.8	1,383.4	937.7
Provisions for liabilities and charges	93.6	90.6	109.5	100.0	96.6
Net assets	386.7	454.9	490.0	172.6	131.3
Statistics					
Basic earnings per share	(12.22)p	3.55p	32.18p	15.68p	17.45p
Diluted earnings per share	(12.22)p	3.53p	30.79p	15.51p	16.72p
Basic earnings per share pre-goodwill and exceptional items	(1.08)p	13.45p	5.32p	16.84p	17.45p
Diluted earnings per share pre-goodwill and exceptional items	(1.08)p	13.38p	7.38p	16.66p	16.72p
Dividend per share	2.00p	9.50p	9.00p	8.25p	7.50p
Net assets per share	78.14p	92.33p	99.78p	36.11p	27.66p
Ratios					
Dividend cover	(6.11)	0.37	3.58	1.90	2.33
Dividend cover pre-goodwill and exceptional items	(0.54)	1.42	0.59	2.04	2.33
Share data					
Number of shares in issue – period end	494.9m	492.7m	491.2m	477.9m	474.7m
– average	492.1m	490.2m	476.4m	475.4m	439.3m
Diluted number of shares	492.1m	492.3m	546.6m	480.5m	464.4m
Share price					
High	283.50p	335.50p	430.00p	544.50p	541.00p
Low	81.50p	110.00p	202.00p	287.50p	282.50p
Average	180.00p	255.41p	308.63p	435.67p	429.38p

The figures for the years 1998 to 2001 have been restated to take account of a prior year adjustment as described in note 11 to the financial statements.

Shareholder information

Analysis of shareholders

At 30 September 2002 there were 9,694 shareholders registered compared with 8,468 at 30 September 2001.

Category	Number of holders	Shares held
Individuals	8,888	73,841,945
Life/Insurance funds	58	68,241,630
Pension funds	207	119,416,526
Unit trusts	98	91,645,245
Investment trusts	16	8,521,530
Overseas funds	198	98,758,198
Other	229	34,475,633
	9,694	494,900,707

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, Jetset (excluding seat only sales), Leger 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. If you book one of our cruises on the MS Sundream, MS Sunbird, MS Carousel or MS Seawing, you will, at the time of booking, be upgraded to the next highest grade of cabin at no additional cost, but subject to the availability of both cabin types.

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 during normal working hours on any day of the week.

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.

Shareholder enquiries The Company's share register is maintained by Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh, EH4 1WQ.

Any queries about the administration of shareholdings, such as change of address, change of ownership, or dividend payments should be directed to the Company's Registrars, Lloyds TSB Registrars Scotland, at the address noted above or through their shareholder telephone helpline on 0870 601 5366.

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FINANCIAL CALENDAR

Annual General Meeting	March 2003
Interim results announced	May 2003
Final results announced	November 2003

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