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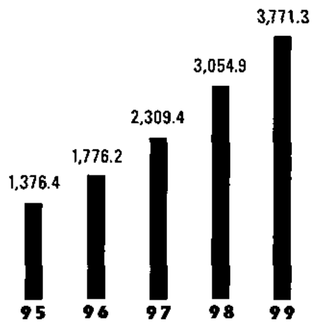
AIRTOURS PLC 1999

ANNUAL REPORT & ACCOUNTS

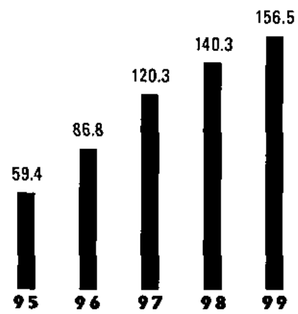
GROUP TURNOVER+

(£M)



PROFIT BEFORE TAX*

(£M)

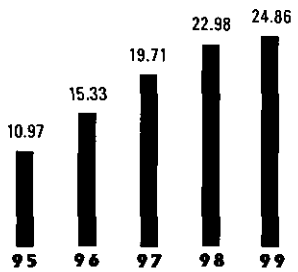


FINANCIAL HIGHLIGHTS

	98	99	%
GROUP TURNOVER+ (£m)	3,054.9	3,771.3	+23.5
PROFIT before tax* (£m)	140.3	156.5	+11.5
EARNINGS per ordinary share, basic* (p)	24.08	25.43	+5.6
EARNINGS per ordinary share, diluted* (p)	22.98	24.86	+8.2
DIVIDEND per ordinary share (p)	7.50	8.25	+10.0

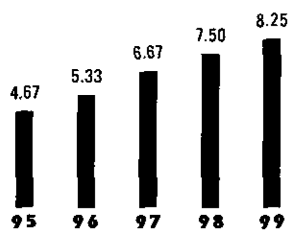
DILUTED EARNINGS PER SHARE*

(P)



DIVIDEND PER SHARE

(P)



+Group and share of joint ventures' turnover *Before bid costs and goodwill amortisation

Airtours is a multi-national tour operating group employing 20,000 people worldwide.

We operate a fleet of 42 aircraft, 10 cruise ships and 46 resort properties.

Last year, 10 million customers went on holiday with us.

This enabled us to deliver another year of record results.

Airtours is the world's largest provider of air-inclusive holidays. We are a vertically integrated, geographically diversified business with a broad portfolio of products and brands. Our strategy is to build sustainable passenger volumes allowing us to invest in more aircraft, hotels and cruise ships as our business expands.

CHAIRMAN'S STATEMENT
DAVID CROSSLAND

In the 12 months to 30 September 1999, Airtours had another highly successful year. Profit before tax, bid costs and goodwill amortisation increased by £16.2m to £156.5m, representing a 12% increase on the prior year. Profit before tax increased by £10.6m to £150.9m, after incurring exceptional costs of £4.5m in relation to the bids for First Choice Holidays plc, and £1.1m of goodwill amortised during the year.

The Board is recommending a final dividend of 6.60p per ordinary share which, together with the interim dividend of 1.65p, gives a total dividend of 8.25p for the year; an increase of 10% over the previous year.

We have again achieved record profits and earnings whilst investing for future growth. Over the past year, Airtours expanded its existing operations, completed acquisitions and started businesses in new and existing markets resulting in a 20% growth in passenger volumes and expansion of geographic coverage. We will continue to build sustainable passenger volumes allowing us to invest in more aircraft, hotels and cruise ships as our business expands. During the year we increased our passenger volumes, took delivery of six new aircraft, introduced our fourth cruise ship and secured land for further hotel and vacation ownership developments.

The acquisition of First Choice Holidays plc would have provided significant additional opportunities to enlarge the business, to the benefit of all our stakeholders. The final decision of the European Commission in September 1999 to block our bid was therefore disappointing, but does not affect our strategy to continue to grow our Group.

In the UK, we anticipated increased competition and successfully protected our earnings by investing in a diverse range of new distribution channels for our products. These included new retail, electronic and direct sales outlets, as well as new and strengthened partnerships with third parties.

Our success has been due to the 20,000 people who work for Airtours in our various activities of distribution, tour operating, aviation, accommodation and cruising. I would like to thank everyone for their contribution as individuals and as part of a successful team.

PLC BOARD

I would like to take this opportunity to express my gratitude to Harry Coe and Hugh Collinson who have decided to retire from their full time roles. Both Harry and Hugh have made enormous contributions in shaping Airtours into the fine company that it is today. Whilst Harry will retire from his full time position on 31 December 1999, he will remain on the Board as a non-executive director until 31 December 2000. Hugh will retire at the next Annual General Meeting to be held on 20 January 2000.

I am pleased to announce the following changes to the Board. Tim Byrne, Group Finance Director, will become Group Managing Director once a replacement for his position has been found. We would expect to be able to announce a replacement during the first quarter of the year 2000.

In August 1997 Lars Thuesen was appointed Chairman of UKLG. Since that time UKLG has undergone major expansion in terms of passenger volumes and profits. Lars will now concentrate his efforts on our businesses in Western Europe, and in particular Germany, where we are committed to continue to expand rapidly. In addition, Lars will become Chairman of our Accommodation Division, an area where we are also committed to continued growth. Peter Rothwell, Chief Executive Officer of UKLG, will now be responsible for all of our UKLG businesses and will join and report directly to the Board.

OTHER MANAGEMENT CHANGES

In North America, Leo Desrochers has decided to leave NALG and return to the aviation industry with effect from 31 December 1999. I would like to take this opportunity to thank Leo for his contribution to the Airtours Group. Chris Mottershead, presently Managing Director of Airtours Holidays, will relocate to Toronto to take on the role of Chief Executive Officer of NALG with effect from 1 January 2000. The new Managing Director of Airtours Holidays will be Richard Carrick, who is presently its Deputy Managing Director.

There are considerable opportunities for expansion as we vigorously pursue the growth strategy which has served Airtours so well over the years. We have the depth of management and financial resources to ensure that Airtours continues to flourish and is able to take advantage of opportunities for future profitable growth as they arise. We look forward to the coming year with confidence.

DAVID CROSSLAND

Chairman

DAVID CROSSLAND•

Aged 52. Chairman of the Company since 1972. A Director of Carnival Corporation. Over 36 years' experience in the travel industry.

SIR MICHAEL BISHOP CBE••

Aged 57. Non-Executive Director since 1987. Appointed Deputy Chairman in 1996. Chairman of British Midland plc.

HARRY COE

Aged 55. Managing Director. Joined the Company in 1988 as Finance Director. Previously held board level appointments in a diverse range of industries, including television, printing and finance.

TIM BYRNE

Aged 40. Finance Director. Joined Airtours in 1993 as Group Financial Controller. Joined the Board in 1997. Previously held board level positions in hotel, theme park and television industries.

HUGH COLLINSON

Aged 55. Chairman of the Group's Accommodation Division. Joined the Company in 1985 as Finance Director. Previously Company Secretary of Thomas Locker (Holdings) plc.

MIKE LEE

Aged 52. Joined Airtours in 1990 and was appointed to the Board in 1993. Chairman of the Aviation Division. Has over 33 years' airline industry experience.

PETER ROTHWELL

Aged 40. Joined Airtours Holidays as Managing Director in 1995. Became Chief Executive Officer of Airtours UKLG in May 1998. Appointed to the Board in November 1999.

CHRISTER SANDAHL

Aged 55. Joined Airtours in 1994 when Scandinavian Leisure Group was acquired. Joined the Board in 1996 and is Chairman and Chief Executive of SLG.

LARS THUESEN

Aged 43. Joined Airtours in 1994 when Scandinavian Leisure Group was acquired. Joined the Board in 1998 and is currently Chairman of WELG.

MICKY ARISON

Aged 50. Non-Executive Director appointed in 1996. Chairman and the Chief Executive Officer of Carnival Corporation.

ROGER DAVIES

Aged 54. Non-Executive Director since 1997. Previously Chairman of Going Places from 1994. Prior to that spent 20 years at Thomson Travel Group.

BOARD

SIR TOM FARMER CBE •

Aged 59. Non-Executive Director appointed in 1994. Chairman of Kwik-Fit Holdings plc.

HOWARD FRANK •

Aged 58. Non-Executive Director appointed in 1996. Vice Chairman and Chief Operating Officer of Carnival Corporation.

ERIC SANDERSON • •

Aged 48. Non-Executive Director appointed in 1987. Until recently was a member of the Management Board of the Bank of Scotland and currently holds a number of non-executive directorships.

• Member of the Audit Committee • Member of the Remuneration Committee

MANAGING DIRECTOR'S REVIEW

HARRY COE

Total turnover, including our share of the turnover of our joint ventures, increased last year by 23% to £3,771.3m. Of this total, 49% was generated in the UK, and 51% from our overseas businesses. Profit before tax, bid costs and goodwill amortisation reached a record £156.5m. On the same basis diluted earnings per share increased 8% to 24.86p, driven by strategic acquisitions of businesses and assets over recent years. Profit before tax amounted to £150.9m and diluted earnings per share on the same basis amounted to 23.82p.

INVESTMENTS AND ACQUISITIONS

During the year, we invested £30.4m in buying businesses and £173.4m in the purchase of fixed assets.

The availability and diversity of distribution channels is critical to ensure that we maintain passenger volumes and high asset utilisation in competitive markets. In the UK, we strengthened our distribution network by acquiring the Travelworld Group of high street outlets, which now number 123, and developing further our call centre capabilities and direct sales tour operations. In December 1998, we established a franchise operation with the National Association of Independent Travel Agents. In Germany, FTi secured a 40% interest in Berge & Meer, which packages and distributes air-inclusive tours directly to the public through call centres, Internet and mail. During the year, FTi also acquired the retail travel agency interests of the Real Group, which now comprise 153 outlets operating throughout Germany under the Allkauf brand. FTi now has interests in over 900 retail outlets in Germany, Austria and Switzerland.

In line with our strategy of broadening our customer base, we expanded our tour operating business in Holland through the acquisition of Marysol, which offers traditional Mediterranean destinations, and Traveltrend, which specialises in long-haul travel. Our Scandinavian business acquired Trivsel/Globetrotter, the leading tour operator for holidays based on scheduled flights, providing an entry for Airtours into this important segment of the Scandinavian market.

During last year, we added six new aircraft to our fleet, including two brand new Airbus A330-200s for the UK. Two more are on order for delivery in Scandinavia by the end of 1999. These 360-seat aircraft provide the latest passenger facilities including our 'Premiair Gold' service, which is already available on a number of our aircraft. Fly FTi, our German charter airline, was launched in May 1999 with a core fleet of three Airbus A320s.

We have made further investments in hotel accommodation. New accommodation is an increasingly scarce commodity as countries around the world apply stronger planning restrictions, and it is important for our future growth to secure access to the quantity and standard of rooms we need for our growing passenger volumes. The acquisition of 65% of the Blue Bay hotel management company gives us access to an exclusive hotel brand in the Caribbean and Mexican markets. In the Canary Islands we acquired land for various new-build hotel projects providing four-star accommodation. After the year end we purchased the remaining 50% of the Lake Eve joint venture in Florida, where we are developing the Oasis Lakes vacation ownership resort.

In May 1999 we introduced the MS Sunbird, our fourth cruise ship and our first to carry a four-star specification. Following an extensive £11m refitting at the Cammell Laird shipyard, the vessel went into service in the Mediterranean for the summer season where it has been enthusiastically received by our customers.

MARKET ANALYSIS

In the UK, we expect the current high levels of competitive activity to continue with increased dependency on in-house distribution channels. Having already invested in all aspects of our distribution businesses including retail travel agencies, direct booking facilities and emerging channels, such as the Internet and digital television, we expect to maintain our strong market position in the UK.

In Scandinavia, whilst we do not expect to repeat this year's very high proportion of full priced brochure bookings compared to discounted sales, we are delighted

MANAGING DIRECTOR'S REVIEW

HARRY COE

with our entry into the market for holidays based on scheduled flights. In Poland, we have already achieved a market share of over 15% and look forward to continued expansion of our business.

In our West European Leisure Group, we are encouraged by our recent acquisitions and growth of passenger volumes. We will continue to seek opportunities to expand rapidly either organically or by acquisition in the Dutch, Belgian and French markets.

In Germany, we will continue to develop our business through the rapid expansion of FTi in terms of passenger volumes, regional coverage, distribution resources and in-house flying capabilities in the form of Fly FTi. We have recently strengthened the management structure with the appointment of Lars Thuesen as the Chairman of our German interests together with the introduction of advanced yield management systems already used in other parts of our Group.

In North America, following a year of high commission rates paid to travel agents, mainly as a consequence of the over-capacity in the Canadian market, we expect a reduction in commissions following the rate reductions instituted by the scheduled airlines.

As the market leader in Mediterranean cruising, Costa Cruises continues to benefit from strong demand in this sector. Continued attention to fleet operating efficiency together with well planned fleet capacity changes provides Costa Cruises with a strong position from which to expand.

BUSINESS OVERVIEW - UK

Our UK operations generated profits before bid costs and goodwill amortisation of £103.9m compared with £104.0m in the prior year. This result reflects the quality of our tour operating products, the strength of our UK distribution network in terms of supporting UKLG tour operators and the excellent results from new businesses acquired in 1998 despite increased competition in the UK market as a whole. The promotion of Peter Rothwell, Chief Executive Officer of UKLG, to the Board, together with the senior management changes within UKLG, demonstrate the depth of management present in our UK business and the strength of our succession planning.

OTHER EUROPE

Our Other European businesses, comprising Scandinavian Leisure Group (SLG) and West European Leisure Group (WELG), generated record profits of £36.0m compared with £17.0m in the prior year. Continued attention to capacity management and product development has enabled SLG to sell more holidays at full brochure price and at the same time achieve record levels of aircraft and hotel utilisation. This made it an ideal year for launching a range of new products and destinations, including the expansion of holidays based on scheduled flights with the acquisition of Trivsel/Globetrotter, all of which will form the basis for continued growth. WELG reported higher losses in the year as we rapidly increased our volumes of passengers, particularly in Belgium, against strong competition. We have continued to expand our business in Poland, and are exploring further opportunities for growth in this rapidly expanding market, together with opportunities in neighbouring countries.

GERMANY

Our investment in FTi gives us access to the important German market. Our share of FTi's losses amounted to £6.2m compared with losses of £1.0m in 1998, which represented four months of trading following our investment in May 1998. Over the past year, we have substantially improved the organisation and put new management in place. We have expanded our charter operations and retail distribution network, and the launch of the Fly FTi charter airline gives us full vertical integration in this market. We will continue to invest in Germany to grow our business in this, the largest tour operating market in the world.

NORTH AMERICA

Our North American businesses incurred a loss of £10.5m compared with a loss of £1.1m in the prior year.

Whilst our US operations performed well, with both our Californian business and Vacation Express increasing capacity and expanding their product base, our Canadian businesses were forced to trade in the heavily discounted lates market, due to general over-capacity, and consequently incurred increased losses. We have established a new and strengthened management team in NALG with the appointment of Chris Mottershead as Chief Executive Officer and a new Chief Financial Officer. In addition, we have appointed a new Chief Executive Officer of our Canadian operations.

COSTA CRUISES

Costa Cruises enjoyed another very good year, despite the downturn in demand experienced by the cruise industry during the Kosovo conflict. Our share of profits increased to £31.6m, up 50% on the previous year. The construction of their new ship, Costa Atlantica, is progressing on schedule for delivery in summer 2000 and Costa plans to increase the capacity of Costa Classica from 1,300 berths to 2,000 berths.

TENERIFE SOL

Our share of profits from Tenerife Sol, our joint venture with Sol Melia, increased to £2.9m compared with £2.2m in the previous year.

BOOKINGS

Bookings in the UK for winter 1999/2000 are currently 5% ahead of the same time last year, and average selling prices are ahead of last year. Summer 2000 bookings are 29% up on the prior year, with an increase in average brochure selling prices.

In Scandinavia, bookings for winter 1999/2000 are running 10% below last year's record levels, but with average selling prices ahead of last year. Summer 2000 bookings are 24% ahead of last year with increased selling prices following the recent launch of the brochures. In our West European Leisure Group, bookings for winter 1999/2000 are currently 6% ahead of last year.

Bookings for winter 1999/2000 in North America are 11% ahead of the prior year and average selling prices are slightly ahead of last year.

Bookings at Costa Cruises are currently 7% ahead of last year with increased selling prices. FTi bookings for the winter are 82% ahead of last year, reflecting the continued expansion of our charter operations.

The excellent booking figures for winter 1999/2000 mask the industry wide problem of poor bookings around the millennium period, which will be reflected in our first quarter results.

GOING FORWARD

Over the past year Airtours expanded its existing operations, completed acquisitions and started businesses in new and existing markets, resulting in a 20% growth in passenger volumes and expansion of geographic coverage. This growth has inevitably increased our operational cost base, which will be reflected in higher seasonal losses for the first half of the 1999/2000 financial year.

HARRY COE
Managing Director

DISTRIBUTION

RETAIL TRAVEL AGENTS

GOING PLACES	728 outlets
TRAVELWORLD	123 outlets
ADVANTAGE	334 franchises
VING	67 shops; 9 franchises
ALLKAUF	90 shops; 63 franchises
FTI	9 outlets
FLUGBÖRSE	147 franchises
SvF	22 franchises
MARETOURS	21 outlets

CALL CENTRES & TELETEXT

LATE ESCAPES	90 employees
GO DIRECT/HOLIDAYLINE	200 employees
SPACE/FLIGHTDECK	28 employees
ARL DIRECT	144 employees
DIRECT HOLIDAYS	174 employees
TRADEWINDS/EUROSITES	80 employees
CRESTA	265 employees
BRIDGE	50 employees
BERGE & MEER	114 employees

INTERNET & INTERACTIVE TV

WEBSITES	36 across all key businesses
OPEN	Interactive TV contract for UKLG tour operators

Our distribution strategy is to create a range of distribution channels, from retail shops to the Internet, structured to meet the needs of customers buying a wide range of holiday products, in different countries and markets.

DISTRIBUTION

RETAIL TRAVEL AGENTS

This year's acquisition of the Travelworld Group makes an important addition to our retail presence in the UK, where selling holidays through in-house high street travel agents remains very important. Travelworld and Going Places continued their programmes of shop development, including relocations, refurbishments, acquisitions and new openings.

Going Places opened their first Holidayworld, a holiday hypermarket covering 10,000 square feet, while Travelworld piloted a new, space-saving, yet more private, format for high street sites. We also rolled out the award-winning Matchmaker technology across all Going Places outlets.

Tesco, the UK's largest supermarket chain, made Going Places its preferred leisure travel partner, giving us exclusive access to the database of one of Europe's biggest loyalty schemes. Tesco Clubcard holders can earn points when they buy any holiday from Going Places.

Also in the UK, Airtours has a minority stakeholding in the Advantage Travel franchise which has 334 members.

During the year we have increased Ving direct travel shops across Scandinavia and in Poland. In Germany, FTi acquired the Allkauf network of 155 high street and in-store travel agencies from the Real Group, which operates Germany's largest hypermarkets. FTi will be able to extend the number of Allkauf travel agencies by establishing further outlets within new and refurbished Real stores.

CALL CENTRES/TELETEXT

Direct sales channels are the second largest, and fastest growing method of distribution in the Group. Our direct distribution activities in the UK received a boost from a new retail telephone sales centre in Newcastle which significantly increases our call handling capacity for Late Escapes and other Group tour operators. In July 1999, we launched SPACE, a new brand which sells scheduled flights direct to independent travellers.

New technology in Scandinavia has enabled us to create a 'virtual call centre' whereby telephone calls are automatically routed to available staff in any of our outlets – ensuring that the customer always gets a prompt answer.

Berge & Meer, of which FTi acquired 40% in the year, operates a modern call centre in Germany which provides important supplementary distribution channels for FTi's products.

INTERNET/INTERACTIVE TV

Whilst still representing a small part of our distribution channels, selling through the Internet is increasingly important in all our markets and, in September 1999, Direct Holidays became the first package holiday company in the UK to provide booking and paying facilities over the Internet. In Scandinavia, where direct selling has traditionally been an important part of the distribution mix, all of our businesses now offer Internet booking.

Going Places took an exciting step in electronic distribution by becoming a content provider for the interactive television service OPEN. Customers will be able to access a mixture of information, including video clips, on destinations, resorts, hotels and flights. This complements our established presence on Teletext.

TOUR OPERATING

UNITED KINGDOM	AIRTOURS HOLIDAYS	Mainstream air-inclusive holidays, typically one/two weeks in the sun.
	TRADEWINDS	Long-haul specialist to exotic destinations.
	EUROSITES	Self-drive camping and mobile home based holidays.
	PANORAMA HOLIDAYS	Charter specialist; winter ski/sun, summer destinations; Tunisia specialist.
	DIRECT HOLIDAYS	For customers who prefer to book direct with the tour operator.
	CRESTA HOLIDAYS	A few days away from it all, with scheduled flight flexibility.
	BRIDGE TRAVEL	50 years experience of offering tailor-made holidays and short breaks.
SCANDINAVIA	VING	Scandinavian high quality, market leading direct brand.
	SPIES	Leading air-inclusive high volume brand in Denmark.
	SATURN	Mainstream air-inclusive value for money brands.
	GLOBETROTTER	Specialist city breaks and long-haul operator to the Far East and the USA.
BELGIUM HOLLAND FRANCE	SUNAIR	Brand offering air-inclusive and land based holidays.
	MARYSOL	Well established tour operator to main Mediterranean destinations.
	TRAVELTREND	Long-haul specialist in The Netherlands.
	VOYAGE CONSEIL	French-based operations offering air-inclusive and land based holidays.
GERMANY	FTI	Rapidly expanding charter based air-inclusive sun and sea holidays.
	BERGE & MEER	Package and distribute air-inclusive tours direct to the public.
	SPORT SCHECK	Specialist operator of sporting holidays.
NORTH AMERICA	VACATION EXPRESS	Atlanta-based tour operator with destinations to Mexico and the Caribbean.
	SUNTRIPS	Californian tour operator focusing on Mexico, Hawaii and the Caribbean.
	SUNQUEST	Canadian / USA brand offering charter holidays to the USA, Mexico & Caribbean.

Our tour operating strategy is to build a critical mass of sustainable passenger volumes using a range of holiday brands offering a wide variety of products to generate brochure sales.

DIRECT SUCCESS

Direct Holidays, acquired in 1998, is the UK's fastest growing tour operator, having doubled in size last year. In September 1999, First Minister for Scotland, Donald Dewar, opened its new Glasgow headquarters, which includes a 150-strong call centre. Direct, which has operated principally from Scotland and the North of England, expanded its coverage with new travel centres in Bristol and Dublin. These major investments will see their first departures from Bristol and Dublin airports for the forthcoming summer season.

NEW PRODUCTS

We have continued to expand our products and services in all markets, with increasing emphasis on differentiated products which achieve strong brochure sales. Two new products, for example, are Airtours Holidays' Special Collection, offering small, tranquil hotels and villas, and Prestige Collection based on elite four-star hotels.

Airtours' Family First concept, developed from customer research, for parents with young children, has been a great success and is now set to increase from four to ten complexes. Our entertainment-based Suncenters are also expanding. Together with new-look Children's Clubs, these exclusive concepts make one of the most impressive family portfolios in the industry.

Direct Holidays has introduced the Sunwing brand to its summer 2000 programme, offering a wider choice of product to its customers. Throughout the Scandinavian markets, we expanded our portfolio of hotel and cruise products. These have positively affected prices, utilisation and margins, as well as leading to record levels of customer satisfaction. In Holland, we increased our range of brands and products through the acquisition of Traveltrend and Marysol.

There was also plenty of innovation in our other programmes. Panorama Holidays, our specialist charter operator, introduced cruising holidays to the Irish market. Cresta Holidays added self-catering breaks to its Eurotunnel motoring holidays, and continued to expand its direct-sell programme on behalf of Eurostar UK.

NEW DESTINATIONS

Our long-haul programmes have gone from strength to strength in the UK and Scandinavian markets. In the UK we have introduced holidays for summer 2000 to Acapulco on Mexico's Pacific Coast, one of the world's most exciting and glamorous resorts. Tradewinds, our scheduled long-haul specialist, continued to expand rapidly and launched a dedicated Australasian brochure. Bridge Travel created a major new programme of holidays from the UK to Scandinavia, including city breaks, longer stays in chalets and hotels and Norwegian coastal voyages. Bridge also exported its expertise to Scandinavia with a new range of short breaks flying from all Norwegian and Swedish airports to 28 cities. In the UK, Bridge launched a unique offering of family holidays to theme parks and holiday villages in Belgium, France and Holland.

In North America, Vacation Express introduced new direct programmes from Louisville to Aruba, from Indianapolis and Raleigh to Cancun, and from Louisville and Nashville to Costa Rica. Suntrips are now providing flights from Denver and San Francisco to Acapulco and Ixtapa, and a Denver-Cozumel flight has been introduced for the first time.

AVIATION

The Group operates four airlines: Airtours International (UK), Premiair (Scandinavia), Air Belgium (Belgium, Holland, France), and Fly FTi (Germany), combining for a total of 42 aircraft. The structure of the fleet allows us to move aircraft to whichever tour operating region can best utilise its capacity. Concentrating on a core fleet of Airbus aircraft allows us to realise economies of scale both in terms of the initial investment in the aircraft as well as the on-going cost of running the fleet.

AIRBUS

3	A330	long range	capacity 360
3	A300	medium range	capacity 298
2	A321	medium range	capacity 220
18	A320	medium range	capacity 180

26 TOTAL AIRBUS AIRCRAFT

BOEING

3	767	long range	capacity 315
7	757	medium range	capacity 233
1	737	short range	capacity 170

11 TOTAL BOEING AIRCRAFT

McDONNELL DOUGLAS

4	DC10-10	long range	capacity 379
1	DC10-30	long range	capacity 360

5 TOTAL MD AIRCRAFT

Airtours' aviation strategy is to operate a fleet of modern aircraft, giving us control over product quality and ensuring that capacity is highly utilised across all routes, in all seasons, through conservative in-house capacity management.

AVIATION

FLEET DEVELOPMENT

Over the past year, we have made further investments in enlarging our fleet to meet growing passenger volumes, concentrating on acquiring larger aircraft which enable us to improve operational performance and financial returns.

Two new Airbus A330-200s, each with a capacity of 360 passengers, were delivered in time for the UK summer high season, with a further two planned for delivery to Scandinavia in November and December 1999 respectively. The aircraft has a longer range and flies at a higher altitude than almost any commercial plane in service, offering more routeing flexibility and opportunities to reduce fuel consumption. Despite its size, the A330 is not restricted at any of the airports we use throughout the world so can fly long or short-haul routes. This is a potentially huge competitive advantage for scheduling in the busy summer season. From a customer point of view, the A330-200 offers the latest amenities, including a split level main cabin and seat-back video screens.

Our Belgian operation updated its fleet by replacing one of its leased Boeing 737s with two A320s. This increases commonality, and hence creates greater economies of scale, between Air Belgium and Fly FTi, the newly launched German charter airline which has a core fleet of three A320s.

Further fleet changes confirmed during the year include three brand new A330-300s to replace DC10-10s in Scandinavia towards the end of summer 2000 and two new A321s in the UK at the start of summer 2000.

MAINTENANCE AND TRAINING

During the year, we have continued to review the effectiveness of all our aircraft engineering arrangements and signed major new contracts with Air France for Airbus rotable spares repair and with FLS Aerospace and BA for Boeing maintenance.

We have invested further in crew training with the acquisition of the first full flight simulator and cabin crew simulator to be based in a new Crew Training Centre in the North West of England. The centre will also provide safety and classroom training for a significant proportion of our worldwide crew and is expected to be fully operational by spring 2000.

SERVICE

Our 'Premiair Gold' service is now available on most of our long-haul flights. It offers wider seats and longer leg room, an exclusive cabin area, priority boarding and award-winning in-flight entertainment. We mitigated the impact of the ending of EC Duty Free concessions by expanding the range of items on sale, especially luxuries such as watches and jewellery. In Scandinavia, we have introduced the concept of 'duty paid' shopping at duty-free prices.

ACCOMMODATION

Ownership of accommodation in prime holiday destinations allows us to provide access to hotels and resort properties designed to meet specific customer needs. We have developed in-house quality brands designed to meet the specific needs of our customers whether they are from Europe or North America.

BRANDED RESORTS

SUNWING/ AIRTOURS	18 RESORTS	5,034 units	Mediterranean
BLUE BAY	6 RESORTS	1,460 units	Caribbean
SIVA	19 RESORTS	3,529 units	Mediterranean/Caribbean
TENERIFE SOL	3 RESORTS	1,261 units	Canary Islands

Vacation Ownership is one of the fastest growing sectors in the leisure industry. Our Vacation Ownership developments in Florida and Gran Canaria provide our customers with high quality accommodation and the security of ownership.

VACATION OWNERSHIP

AIRTOURS BEACH CLUB	158 units	17,000 guests annually	Gran Canaria
OASIS LAKES	70 units	10,000 guests annually	Orlando, Florida

Airtours' accommodation strategy is to invest in securing quality beds for the Group's customers, by acquiring and operating hotels or forming joint ventures in areas where we need a partner to secure beds.

BRANDED RESORTS

Sunwing Resorts is our own resort brand, operated exclusively for our customers. The hotels cater primarily for families and are located near to the beach in prime holiday destinations.

In March 1999, we completed the acquisition of land in the Canary Islands. The land at Las Meloneras, Gran Canaria will be developed for our Sunwing Resort and Vacation Ownership brands. We plan to build a four-star Sunwing hotel with 561 rooms, providing over 1,100 beds. The land is situated near to the beach in what will become one of the prime destinations in the Canary Islands. Adjacent to the land, there is an existing 18-hole golf course and a marina. This very exciting development is expected to be ready for summer 2002. Further acquisitions of land for Sunwing Resorts are planned.

Meanwhile, we are already building our first completely new branded resort, to be controlled by Airtours, at Rhodes. This will create the flagship hotel for our Garden brand which is marketed in Scandinavia by our SATurn tour operators (Saga, Always and Tjaereborg). The new property is adjacent to the existing Sunwing Resort Rhodes and its 268 units will open in May 2000.

Over the last year we spent £11.8m on our Sunwing resorts, completing a major refurbishment project which has transformed them over recent years. The investment is already paying off, particularly in Scandinavia, where branded resorts are producing increasing levels of brochure sales and customer satisfaction – the Sunwing Resort brand was voted top performer in our portfolio there.

FTi, together with its associates, has interests in 19 hotel properties operated under the SIVA brand which provides accommodation to the FTi group in Spain, Italy, Malta and the Caribbean.

OTHER RESORTS AND HOTELS

In prime locations where the Group provides holidays, we secure beds for our customers by investing in hotels which are not branded Sunwing, and which include our joint ventures.

The most significant event of the past year in this part of our hotel portfolio was the acquisition of a 65% stake in the Blue Bay Group, a hotel management chain based in Cancun, Mexico. Blue Bay manages hotel properties, with approximately 500,000 room nights, in Mexico, Costa Rica and St Martin. These are important long-haul destinations for our customers in the UK, Scandinavia and continental Europe, as well as serving our Sunquest, Suntrips and Vacation Express brands in Canada and in the USA.

Together with its associate Maurerbauer & Partners Holding, Austria, FTi has taken control of one of the Caribbean's largest hotel complexes, the Hacienda Resort, located in the bay of Cofresi, Puerto Plata, in the Dominican Republic. The complex provides accommodation for up to 2,000 people in three hotels, an apartment complex and 80 individual luxury villas, spread over an area of approximately one million square metres.

VACATION OWNERSHIP

Vacation Ownership provides quality accommodation for customers who want to own their own holiday accommodation. As a tour operator, Airtours provides the flight and other elements of the holiday package. At our Airtours Beach Club Resort in Gran Canaria, which opened in November 1998, customer reaction is very positive to the product and its operation.

Since the year end, we purchased the remaining 50% of the Lake Eve joint venture in Florida from our partner, the Emerson Group. The first phase of the resort was completed in 1998.

CRUISING

SUN CRUISES

Sun Cruises operates exclusively for the Airtours Group. It provides the Group's passengers with three star and four star cruise packages including an option to select accommodation from the main tour operator brochures. 167,000 customers enjoyed Sun Cruises in 1999.

MS SUNBIRD	1,432 berths
MS SUNDREAM	1,080 berths
MS CAROUSEL	1,056 berths
MS SEAWING	790 berths

COSTA CRUISES

Costa is the market leader in Mediterranean cruising and has a modern fleet of six ships with a distinctive Italian style. Costa Cruises carried approximately 362,000 passengers in 1999.

COSTA VICTORIA	1,950 berths
COSTA ROMANTICA	1,350 berths
COSTA CLASSICA	1,300 berths
COSTA RIVERIA	974 berths
COSTA ALLEGRA	800 berths
COSTA MARINA	780 berths

DIRECT CRUISES

Direct Cruises was developed exclusively for Direct Holidays, one of our UK tour operators. It provides Direct Holidays' customers with cruise packages that do not involve flying to the point of departure. 15,000 customers enjoyed a Direct Cruise in 1999.

SS APOLLON	962 berths

Summer only charter from third party cruise operator.

Our cruising strategy is to invest in a versatile fleet that can provide customer choice on price, quality and departure points. Our customers can now choose from three or four star products departing from the UK or from overseas ports.

SUN CRUISES

Sun Cruises, our own fly/cruise brand, carried 167,000 customers last year on a large variety of Mediterranean and Caribbean cruises. There was significant growth in the Scandinavian market for Mediterranean cruises. In the USA, Suntrips introduced Western Caribbean cruising, and Sun Cruises was introduced into Vacation Express.

During the past year, we have invested in a number of new features identified by our tour operators as important to customers. These include enhanced on-board facilities for children and 'one-stop' luggage transfers from UK departure airports to the ship. This year, we are extending this service to Scandinavian departures and will also invest in alternative dining areas and improved health and beauty facilities.

Following the success of Direct Cruises, Sun Cruises has positioned the MS Sundream in Southampton for summer 2000, from where it will provide a wide choice of destinations.

MS SUNBIRD

We introduced the MS Sunbird, our fourth, largest and most luxurious cruise liner, in May 1999. This four-star vessel, the flagship of the Sun Cruises fleet, boasts 716 cabins, capacity for nearly 1,500 passengers and a crew of 540. The MS Sunbird underwent extensive refurbishment in order to reach the standards we wanted for our customers. The work included upgrading furnishings in all passenger cabins and some public areas, refurbishing the restaurants and building a brand new bar within the casino. We also constructed nine luxury balcony cabins, a feature of the latest cruise ships.

The MS Sunbird has been based in Palma, Majorca throughout the summer, offering seven-night itineraries around Italy and the North Mediterranean, and for winter 1999/2000 will be based in Barbados. It represents a major investment in the cruising market, which is growing rapidly worldwide.

DIRECT CRUISES

Direct Cruises entered the UK cruise market in 1998 and offers competitive prices to customers who want an overseas summer holiday without flying. Many of those who joined us in the first year returned for the 1999 programme which concentrated on the SS Apollon, based in Liverpool. We are already seeing more repeat bookings for 2000, when the SS Apollon will increase its choice of departure points to three home ports – Liverpool, Dublin and Glasgow.

COSTA CRUISES

Construction is on schedule for the launch of the Costa Atlantica, Costa's seventh cruise ship, in summer 2000. Designed to accommodate 2,680 passengers in total, the Costa Atlantica will include 60 suites and 736 cabins with verandas. One of the three pools will feature a retractable dome converting the central deck into an 11,000 square feet solarium, and another, with a water slide, will be specifically for children. At an estimated cost of $400m, the Costa Atlantica will combine all the elegance of European style with the sophistication of American comforts. In addition, Costa plans to increase the capacity of the Costa Classica from 1,300 to 2,000 berths.

GROUP RESULT

Turnover, including our share from joint ventures, increased during the year by £716.4m, from £3,054.9m in 1998 to £3,771.3m. Of the increase year on year, £497.7m was attributable to continuing operations; £58.2m to acquisitions made during the year; and £160.5m to increases in our share of turnover from joint ventures, mainly relating to FTi.

Profit before tax, bid costs and goodwill amortisation increased 11.5%, from £140.3m in 1998 to £156.5m in 1999. The cost of the bids for First Choice Holidays plc amounted to £4.5m and goodwill amortised in the year amounted to £1.1m. Profit before tax, bid costs and goodwill amortisation from our UK operations amounted to £103.9m compared with £104.0m in 1998. In our Other European businesses, profits more than doubled year on year from £17.0m in 1998 to £36.0m. This reflects a very strong performance in Scandinavia, which was partially offset by increased losses in our West European Leisure Group. Our North American Leisure Group suffered losses in the year of £10.5m compared with losses of £1.1m in 1998, mainly due to continued over-capacity in the Canadian market. Profits from our joint ventures increased year on year by £6.7m to £27.1m in 1999. A strong performance in Costa Cruises was partly offset by increased losses in FTi, reflecting the continued rapid expansion of their charter operations.

TAXATION

The Group's taxation charge for the year of £35.8m represents 23.7% of profit before tax, in line with 1998. This rate is expected to prevail for the foreseeable future.

EARNINGS AND DIVIDEND

Basic earnings per share, before bid costs and goodwill amortisation was 25.43p in 1999, compared with 24.08p in 1998. The equivalent diluted earnings per share was 24.86p, an increase of 8.2% year on year. Basic earnings per share after bid costs and goodwill amortisation amounted to 24.27p in 1999, compared with 24.08p in 1998. Diluted earnings per share on the same basis rose to 23.82p from 22.98p in 1998.

Whilst the issue of the Convertible Bonds in December 1998 diluted our short-term earnings per share, this funding gives Airtours a vital competitive advantage when acquiring businesses in an environment of industry consolidation.

The Board is recommending a final dividend of 6.60p for the year, which together with the interim dividend of 1.65p, gives a total dividend of 8.25p, an increase of 10% on the prior year. The Board proposes to pay the 1999 final dividend on 16 February 2000. At this level, the dividend is covered 2.93 times by earnings.

BUSINESS DEVELOPMENT

The following acquisitions and equity investments were made during the financial year: Travelworld, a UK travel agency chain (November 1998); Traveltrend and Marysol, tour operators based in the Netherlands (March 1999 and June 1999 respectively); 65% interest in the group of companies operating the Blue Bay Resorts chain (April 1999); Trivsel/Globetrotter, a specialist scheduled tour operator based in Scandinavia (July 1999). We also increased our share in FTi to 35.92% on 31 December 1998.

FINANCIAL HIGHLIGHTS

	99	98	%
GROUP TURNOVER+ (£m)	3,771.3	3,054.9	+23.5
PROFIT before tax* (£m)	156.5	140.3	+11.5
EARNINGS per ordinary share, basic* (p)	25.43	24.08	+5.6
EARNINGS per ordinary share, diluted* (p)	24.86	22.98	+8.2
DIVIDEND per ordinary share (p)	8.25	7.50	+10.0

+Group and share of joint ventures' turnover *Before bid costs and goodwill amortisation

CASH BALANCES AND CASH FLOW

During the year the Group generated an operating cash flow of £108.1m, an increase of £9.7m over the prior year. In addition, the Group raised £290.9m, net of costs, from the issue of Convertible Bonds maturing in 2004. The refinancing of the cruise ships, MS Sundream and MS Carousel, generated a further £53.2m of cash.

The Group had cash outflows during the year of £170.9m in relation to net capital expenditure; £26.1m on financial investments; £36.3m for dividends; and a net £32.4m on acquisitions. As a result of these activities, cash and deposits at the year end increased by £190.0m to £554.2m.

CAPITAL INVESTMENT AND FINANCIAL RESOURCES

During the year the Group invested £173.4m in capital expenditure compared with £87.6m in 1998. The principal items of expenditure were £21.2m on land and buildings, principally relating to improvements and expansion of the distribution network; £51.7m on aircraft spares and capitalised maintenance; £15.0m on land for hotel developments in the Canary Islands; and £58.0m on computer systems and equipment. Other additions totalling £27.5m included fixtures and fittings for our hotels and cruise ships.

The Group's net assets at 30 September 1999 amounted to £248.1m compared with £166.0m as at 30 September 1998. The increase of £82.1m largely reflects the increase in fixed assets of £188.0m (including capitalised goodwill of £36.9m), offset by an increase in creditors due within one year, as a result of the growth of our business operations.

CONVERTIBLE BONDS

In November 1998 we announced the offer of £250m Convertible Bonds maturing in 2004. The offer was subsequently increased to £300m to satisfy the demand from our investors. The bonds are convertible into ordinary shares of 10p each in the Company with a conversion price of 443p per ordinary share, and bear an interest coupon of 5.75% per annum.

YEAR 2000

Airtours has been engaged for over two years in taking appropriate and cost effective action to avoid the potential impacts of the Year 2000 problem and are pleased to state that all our preparatory work has been completed successfully. We have not suffered from any Year 2000 related problems to date and we believe we have taken all reasonable steps to avoid disruption to our business operations and our customers' holidays.

The success of our project is reflected in our having been able to adhere fully to our business timetable, with no delays in the publication of our sales brochures. Further evidence is provided by the securing of all our necessary insurance cover, and in the award of the 'blue' grading by the UK Government to our airline, Airtours International, as part of the Year 2000 National Infrastructure Forum. We will continue to challenge the assumptions underpinning our contingency planning until such time as we are confident that those plans are no longer necessary.

As reported previously, we expect the cost of work to address the Year 2000 problem to total approximately £10m in

BALANCE SHEET

£M	99	98
GOODWILL	36.9	—
TANGIBLE FIXED ASSETS	436.5	321.4
INVESTMENTS	107.6	71.6
NET CURRENT ASSETS	203.9	4.1
LONG TERM LIABILITIES	(536.8)	(231.1)
NET ASSETS	248.1	166.0

the financial years 1998, 1999 and 2000, all of which is charged to the profit and loss account as incurred. Approximately £8m has been charged to date.

INTRODUCTION OF THE EURO

Airtours has taken steps to ensure it can take advantage of any opportunities and react to any potential threats that the introduction of the euro may bring, including making sure that all key computer systems are 'euro ready'. The implementation of EMU on 1 January 1999 within the 'Eurozone' countries has had no significant impact on our business procedures or relationship with suppliers and customers.

FINANCIAL REPORTING STANDARDS

Financial Reporting Standards 10 to 14 became effective for Airtours' financial year ending 30 September 1999, and their adoption is reflected within these accounts. The impact of FRS 10, in relation to goodwill, has been disclosed above. FRS 12 requires that provisions and accruals are to be provided for in a company's balance sheet only where a legal or constructive obligation to transfer economic benefits exists at the balance sheet date. As a result of applying the new standard for this year end, there has been no material impact on the profit and loss account for the year. FRS 13 requires that certain disclosures relating to financial instruments are given in the accounts, in order to provide information about the impact of financial instruments on a company's risk profile, how the risks arising may affect the entity's performance and financial condition and how those risks are being managed. The narrative disclosure required by FRS 13 is set out below. The numeric disclosure is set out in note 20 to these accounts.

RISK MANAGEMENT

The Group has prudent operating and financial policies and procedures designed to maximise shareholder value within a tightly defined risk management framework. Compliance is monitored by Group management, consisting of senior executives reporting to the Board.

The Board has established prudent and conservative treasury policies which are reviewed regularly to ensure they remain relevant to our rapidly expanding business.

The main financial risks faced by the Group are exchange rate, 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 internally and externally.

I. FOREIGN CURRENCY RISK

The Group's transactional foreign currency exposures primarily result from exposures relating to accommodation and flying costs for the seasons on sale. The Group's policy requires subsidiaries to hedge all trade-generated exposures at the time of commitment with Group Treasury. Hedging is put in place using forward contracts and options.

The Group's net assets in currencies other than sterling are selectively hedged 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 net financial assets can be seen in note 20. In addition, the Group selectively hedges its expected future trading cash flows up to 12 months ahead, primarily using forward contracts.

II. INTEREST RATE RISK

The Group's exposure to interest rate fluctuations on its borrowings, deposits, and cruise ship and aircraft related financing is managed by using interest rate swaps, interest rate options (caps and collars) 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 82% at a blended rate of 6.7%. The gross cash position was fully floating. Details of the interest rate analysis can be seen in note 20.

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 at the time of commitment with Group Treasury. 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 whilst maximising yield.

During the year, the gross borrowing maturity profile was extended, resulting primarily from the issue of £300m Convertible Bonds in December 1998. As detailed in note 20 only 14.6% of the Group's total borrowings at the year end will mature in the next 12 months, 83.4% will mature in more than one year but less than five, and 2.0% will mature in more than five years.

SEGMENTAL ANALYSIS

UK

In a year of significant competitive activity we achieved growth in our tour operating businesses both organically and as a result of acquisitions made in 1998 and investing in existing and new distribution channels. During the year we have sold more of our UK tour operators' products through our own in-house distribution channels. As a result, the analysis of UK Tour operations and UK Retail as separate business segments has become less meaningful, and consequently, we report UK Operations in total, in line with other UK vertically integrated tour operators.

UK - CONTINUING

Turnover from UK continuing operations increased by 21% to £1,825.6m from £1,508.1m in 1998. Profit before tax, bid costs and goodwill amortisation was £103.4m compared with £104.0m in 1998. This result reflects improved trading in our tour operators, due to increased volumes and selling prices, offset by the higher distribution and discounting costs incurred by our tour operators and retailers in an environment of increased competition. The segmental profit was also affected by lower interest receivable due to both a reduction in cash balances, reflecting UK acquisitions, and lower UK interest rates compared with last year. The segment also reflects the net interest costs and amortisation of the issue costs of the Convertible Bonds issued in December 1998.

UK - ACQUISITIONS

Following its successful integration, Travelworld has made a valuable contribution to the Group's UK distribution network. Travelworld generated a profit before tax of £0.5m in the period, as well as selling a significantly higher number of Airtours' products compared with the same period last year. This result is in line with expectations at the time of acquisition.

OTHER EUROPE - CONTINUING

Total turnover from our Other European continuing businesses amounted to £1,103.6m, an increase of £130.8m, or 13%, over last year. Profit before tax and goodwill amortisation doubled to

SEGMENTAL TURNOVER

£M	99	98
UK		
Continuing	1,825.6	1,508.1
Acquisitions	12.7	—
Other Europe		
Continuing	1,103.6	972.8
Acquisitions	43.8	—
North America		
Continuing	321.9	272.5
Acquisitions	1.7	—
GROUP TURNOVER	3,309.3	2,753.4
Joint ventures		
Costa	194.9	202.8
FTi	251.8	88.1
Tenerife Sol	9.8	8.0
Lake Eve	5.5	2.6
TURNOVER: GROUP AND SHARE OF JOINT VENTURES	3,771.3	3,054.9

£34.0m compared with last year. This improvement reflects a particularly strong performance in our Scandinavian Leisure Group as a result of improved load factors, higher average selling prices and an increased proportion of full priced brochure sales relative to discounted sales. Our West European Leisure Group reported higher losses before tax in the year as we rapidly increased our volume of passengers, particularly in Belgium, against strong competition.

OTHER EUROPE - ACQUISITIONS

Turnover from our acquisitions in Other Europe in the year (Marysol and Traveltrend in Holland, and Trivsel/Globetrotter in Sweden) amounted to £43.8m. Profit before tax of £2.0m was in line with our expectations at the time of acquisitions. All acquisitions have now been successfully integrated into the Group.

NORTH AMERICA - CONTINUING

Our North American Leisure Group increased its turnover in the year by £49.4m, or 18%, to £321.9m. This increase mainly relates to the inclusion of a full year of Vacation Express, acquired on 30 September 1998. Losses in the year before tax and goodwill amortisation were £10.9m, compared with losses of £1.1m in the prior year. The increased losses reflect difficult market conditions in our Canadian businesses, primarily due to market over-capacity. Whilst load factors were broadly in line with prior year levels, there was a reduction in average selling prices as a result of increased discounting in the late sales market. In the USA, our Californian businesses and Vacation Express delivered results in line with our expectations.

NORTH AMERICA - ACQUISITIONS

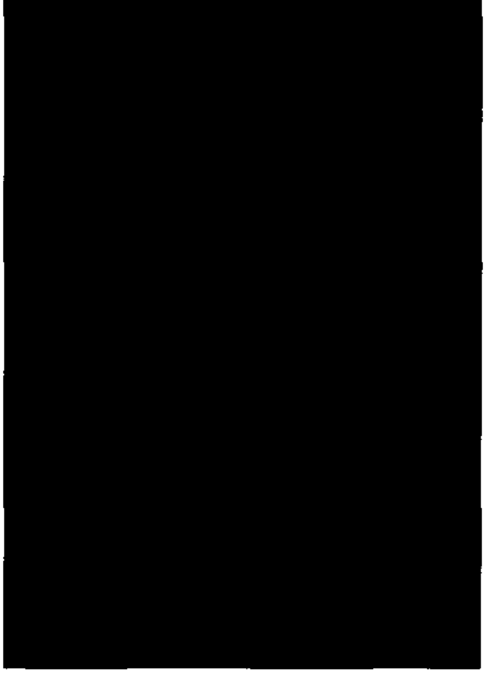
The acquisition of our 65% interest in the Blue Bay hotel management company, which operates six hotels in Mexico and the Caribbean, contributed £0.4m to profit for the year, from a turnover of £1.7m.

JOINT VENTURES

Profit before tax from our joint ventures increased to £27.1m compared with £20.4m in the prior year. This reflects a very strong performance in Costa Cruises, where our share of profits rose to £31.6m from £21.0m last year. This was mainly due to cost efficiencies, slightly offset by forced itinerary changes due to the Kosovo crisis. We continued to invest in Germany and rapidly grew our charter business in this highly competitive market. This expansion resulted in increased losses in FTi of £6.2m compared with our share of losses of £1.0m in 1998. The increase in our share of FTi's losses also reflects the increase in our ownership percentage in the year, from 29% to 36%, and the impact of a full year of ownership, compared with four months of high season in the prior year.

SEGMENTAL PROFITS

£M



*Before bid costs and goodwill amortisation

SUMMARY

These results highlight the importance of our strategy of geographic diversification and a balanced portfolio of businesses capable of producing increased earnings and growth opportunities.

DIRECTORS' REPORT

The Directors present their report together with the accounts and auditors' report for the year ended 30 September 1999.

Principal activities Airtours plc operates within the leisure travel industry with businesses in the UK, Ireland, continental Europe, Canada and the USA.

Business review On 30 November 1998 the Company acquired the Travelworld Group Limited a UK retail travel agency business consisting of 116 high street outlets. In March and June 1999 respectively, Airtours' West European Leisure Group acquired Traveltrend Holding BV, a long-haul specialist tour operator and BV Reisbureau Marysol, an established tour operator, both based in Holland. During April the Group also contracted to acquire plots of land in Gran Canaria and Tenerife in order to develop accommodation resorts and acquired a 65% interest in the group of companies operating the Blue Bay Resorts chain in Mexico and the Caribbean. On 29 May 1999 the MS Sunbird, the Company's first four-star cruise ship, entered service in Palma, Majorca. In July 1999 the Scandinavian Leisure Group completed the acquisition of Trivselresor Holding AB of Sweden, the leading tour operator in Scandinavia specialising in packages based on scheduled air transport.

On 31 December 1998 the Group increased its shareholding in FTi from 29.03% to 35.92% and in June 1999 FTi acquired a 40% interest in EVS Beteiligungs GmbH, the holding company of the Berge & Meer group of businesses, which package and distribute air-inclusive holidays direct to the public. In August 1999 FTi also acquired the retail travel agency interests of the Real Group, comprising 155 travel agencies, which operate throughout Germany.

A full review of the Group's activities and its financial position at 30 September 1999 are reported in the Chairman's Statement on pages 2 and 3 and in the Operating & Financial Review on pages 20 to 24.

Results and dividends Profits for the year after tax and minority interests amount to £115.3m (1998: £106.7m). The Directors recommend a final dividend of 6.60p (1998: 6.00p) per ordinary share amounting to £31.6m to be paid on 16 February 2000, which, with the interim dividend of 1.65p (1998: 1.50p) per ordinary share, amounting to £7.9m, paid on 15 July 1999, makes a total of 8.25p for the year (1998: 7.50p). The retained profit of £75.9m (1998: £70.5m) has been added to reserves.

Directors The Directors in office at the end of the year and their interests in the shares of the Company are listed on page 32.

Mr M M Arison, Mr A H Coe, Mr H S Frank and Mr B C Sandahl retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr Coe has a service contract terminable by the Company at any time on two years' notice and Mr Sandahl has a service contract with Scandinavian Leisure Group AB terminable by the Company at any time on 12 months' notice. Mr Arison and Mr Frank do not have either a service contract or a letter of appointment.

On 17 November 1999 Mr P F Rothwell was appointed a Director of the Company. In accordance with the Articles of Association Mr Rothwell retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

During the year, save as referred to in the Remuneration Report and note 31 to the accounts, 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 1999 was 30 days (1998: 33 days). The number of days credit taken by Group Companies for trade purchases at 30 September 1999 ranged from 8 days to 42 days (1998: 8 days to 63 days). The average number of days taken was 29 days (1998: 30 days).

Environmental matters The Group's various businesses throughout the world take account of good environmental practice. The Group operates in a large number of countries with different cultures. The Directors have determined that it is appropriate that each of the divisions within the Group has its own policies with regard to reducing the potential impact of their operations on the environment and in particular the social impact of tourism.

Charitable and political donations The Group made UK charitable donations of £44,000 during the year. No political donations were made.

Substantial shareholders At 5 November 1999, 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
Carnival Corporation	123,344,501	25.81
David Crossland (Chairman)	48,539,874	10.16
GE Investments	20,385,962	4.27
College Retirement Equities Fund	14,560,000	3.05
Prudential Corporation	14,523,000	3.04

DIRECTORS' REPORT

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 medium of employee newsletters and regular news bulletins.

An employee share scheme was first introduced during 1993 and a further offer of shares under the employee share scheme approved at the 1999 Annual General Meeting was made to eligible employees in March 1999 and was taken up by 38% of eligible employees. 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.

Annual General Meeting The notice convening the Annual General Meeting of the Company to be held on 20 January 2000 is incorporated in a letter which is being sent to shareholders by the Chairman with these accounts and which explains the special business which is to be transacted at the meeting.

Auditors The Directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board
G J McMAHON
Secretary
17 November 1999

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

CORPORATE GOVERNANCE

In June 1998 the Hampel Committee and the London Stock Exchange published the Combined Code on corporate governance. This combines the Cadbury Code on corporate governance, the Greenbury Code on directors' remuneration and new requirements arising from the findings of the Hampel Committee, and became effective in respect of accounting periods ending on or after 31 December 1998.

The Group is committed to high standards of corporate governance. The board recognises that the interests of the shareholders are paramount and that it is accountable to the shareholders for managing the Group as a whole in such a way that it prospers. The Board is responsible for determining the direction and aims of the Group and for monitoring the effectiveness of the Executive Directors' policies and decisions. The Board also acknowledges its responsibilities to the Group's customers and employees.

Directors The Board currently consists of eight Executive Directors and six Non-Executive Directors. Their biographies appear on pages 4 and 5 and illustrate the Directors' range of experience, which ensures an effective Board to lead and control the Group. They meet together as a Board on a regular basis, and, additionally, whenever required. The Board has a formal schedule of matters reserved for its decision.

The Board is provided with full information in a timely manner in order to enable it to discharge its duties. Management accounts are circulated to them monthly with added briefings on extraordinary matters.

Certain matters are delegated to Board Committees. These include the Audit Committee and the Remuneration Committee.

Relations with shareholders The Directors seek to build on a mutual understanding of objectives between the Group and its institutional shareholders by maintaining an active dialogue with its shareholders through a planned programme of investor relations. This activity is a key component of its corporate communications programme.

The programme includes formal presentations in London of full year and interim results, trading statements on three other occasions during the year and meetings between institutional investors and senior management on a regular basis.

Regular communication with shareholders also takes place through the Annual and Interim Reports and via the Company website (www.airtours.com).

The Annual General Meeting is also used as an important opportunity for communication with both institutional and private shareholders, including presentations on the business and its latest trading position.

Going concern After making appropriate enquiries, the Directors believe that the Group has 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.

Internal financial control In reporting on provision D.2.1 of the Combined Code, the Group has adopted the approach the London Stock Exchange has allowed all listed companies to take in its letter of 10 December 1998.

The Directors have overall responsibility for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication, and the safeguarding of assets. The Directors have reviewed the effectiveness of the Group's systems of internal financial control. There are inherent limitations in any system of internal financial control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system that operated throughout the period covered by the accounts include:

- comprehensive planning and budgeting systems operating within each division with an annual budget approved by the Board;
- consideration by the Board of actual results compared to budgets, forecasts and prior year comparatives on a regular basis;
- a corporate Policies and Procedures Manual containing detailed accounting and control requirements;
- the quarterly confirmation of compliance with the corporate Policies and Procedures Manual by the Chief Executive Officer and Chief Financial Officer of each division;
- a Group internal audit function; and
- a review of internal audit reports by the Audit Committee.

Compliance with the Combined Code During the year ended 30 September 1999, the Group complied with the requirements of the Combined Code other than as follows:

- Sir Michael Bishop, Sir Tom Farmer and E F Sanderson are the only Non-Executive Directors to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement;
- in the absence of a nomination committee the Board as a whole is responsible for the appointment of new directors to the Board;
- all members of the Board are required under the Company's Articles of Association to submit themselves for re-election at least once in every four years;
- Mr D Crossland, the Chairman of Airtours plc is also the Chairman of the Remuneration Committee given his extensive knowledge of the business and the tour operating industry; and
- certain of the Executive Directors have service contracts that are terminable by the Company giving not less than 24 months' notice. Given the need to retain and motivate Directors in an industry that requires specialist skills, and in view of the Directors' collective contribution to the growth and success of the Company, the Board believes it is inappropriate to seek to reduce the notice periods provided for in such contracts.

DIRECTORS' RESPONSIBILITIES

Accounts, including adoption of going concern basis 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 Group and of the profit or loss of the Group for that period.

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; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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 safe-guarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REMUNERATION REPORT

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

The members of the Remuneration Committee are Mr D Crossland, the Chairman of Airtours plc (who is Chairman of the Committee), the Deputy Chairman Sir Michael Bishop and Mr E F Sanderson (both Non-Executive Directors).

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 Crossland does not determine his own remuneration package.

Executive remuneration policy The Group's remuneration policy ensures that Directors and senior executives are rewarded in a way that 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.

During the year the Committee engaged external consultants to conduct a review of the remuneration and other benefits paid and awarded to the Executive Directors and senior executives of the Company and the Group. This review resulted in proposals in connection with remuneration and other benefits being submitted to shareholders for consideration and their approval at the Company's last Annual General Meeting, which was duly given. Appropriate details were circulated to shareholders with the notice of the last Annual General Meeting.

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 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 of Directors is calculated on the basis of a maximum of 62.5% of base salary effective at 1 April in the relevant financial year. For the year ended 30 September 1999 provision for these bonuses has been made to the extent that profit targets have been achieved. Bonuses are normally paid in the December following the end of the relevant financial year in which they are earned.

(b) **Long-term incentive plan** Following the expiry of the Airtours plc share option scheme (1986) the Board adopted a new share price related long-term incentive plan in 1996. Subject to the achievement of testing performance criteria it allows eligible employees, including Executive Directors, to earn benefits over a period of not less than four years. The plan is typically designed to encourage senior executives to align their long-term career aspirations with the long-term interests of the Group.

Each participant in the scheme is notionally awarded a number of ordinary shares. The maximum payment entitlement is calculated by multiplying such number of ordinary shares by the share price quoted on the London Stock Exchange on a date as determined by the participant between the date on which the conditions described below are satisfied and the sixth anniversary of the date of the award.

In normal circumstances, no payments can be made under the scheme before the fourth anniversary of the award date. Payments, which can be taken in the form of the Company's shares, may be spread over the period from the satisfaction of the conditions described below to the sixth anniversary of the award date.

The entitlement to the bonus is subject to the Company achieving earnings per share (eps) growth at least equal to the growth in the retail price index (RPI) plus 3% per annum over the four-year period specified at the date of the award. In addition, the level of payment is then determined by the Company's eps growth in comparison to the eps growth over the same period of those companies constituting the FTSE mid-250 Index at the beginning of the period. Where the Company's eps growth falls within the top 63, 100, 125 or 150 of the FTSE mid-250 the proportion of the payment entitlement is 100%, 75%, 50%, and 25% respectively, of the maximum calculated as set out above. No payment is made if the Company does not achieve the minimum ranking of 150th within the FTSE mid-250 shares.

The period over which eps growth is to be measured in respect of all outstanding notional awards ends on 30 September 2000 and the exercise period runs for two years thereafter.

Following the adoption of the Airtours plc 1999 executive share option scheme by shareholders, no further notional awards will be made under the Airtours long-term incentive plan.

At 1 October 1998 and 30 September 1999 the following notional awards of ordinary shares remain in existence:

	1999 & 1998
T R Byrne	262,500
A H Coe	450,000
H H Collinson	300,000
M C Lee	300,000
B C Sandahl	300,000

REMUNERATION REPORT

There have been no new notional awards of ordinary shares, nor payments, made to Directors under the long-term incentive plan in the year ended 30 September 1999.

At 30 September 1999 an amount of £4,007,000 has been accrued for benefits that may fall due to Directors under the long-term incentive plan (1998: £3,037,000). The earliest date upon which benefits under the plan can be taken is 30 September 2000.

III **Pension rights**

Mr T R Byrne and Mr A H Coe are each members of the Company's defined contribution scheme into which the Company, each year, contributes, in respect of Mr Coe, 27.5% of his base salary and, in respect of Mr Byrne, 14% of his base salary together with a further 11% in arrears in the event that the Group's profit target for the relevant financial year is met.

Mr H H Collinson and Mr M C Lee have their own non-contributory pension schemes. With regard to Mr Collinson, the Company each year contributes, subject to Inland Revenue limits, the lesser of such sum as shall ensure that Mr Collinson will receive a pension entitlement equal to two-thirds of his base salary at his retirement date or a contribution equal to 50% of his base salary. In the year ended 30 September 1999 the Company's contribution was restricted to 50% of Mr Collinson's base salary and this situation is likely to continue in the future. With regard to Mr Lee, the Company each year contributes 14% of his base salary together with a further 11% in arrears in the event that the Group's profit target for the relevant financial year is met.

With regard to Mr B C Sandahl, the Company each year contributes 25% of his base salary into a pension scheme together with, for the year ended 30 September 1999, a fixed amount of £27,000 pursuant to his employment with the Scandinavian Leisure Group AB.

Mr L Thuesen's service contract provides that he receives an amount of up to 10% of his base salary for use by him to make provision for his retirement. Mr Thuesen is also entitled to receive an amount of up to an additional 5% of his base salary, in arrears, to be paid into a pension scheme nominated by him in the event that the Group's profit target for the relevant financial year is met.

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

No provisions are required for the pension contributions payable in arrears in respect of the year ended 30 September 1999.

IV **Share option schemes**

(a) **Airtours plc share option scheme (1986)** The Company operated an executive share option scheme, which was adopted by the Board on 30 June 1986, amended by shareholders on 25 January 1990, and further amended by resolution of the Board on 10 October 1994. The scheme was set up for a period of 10 years and 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 are normally exercisable, in the case of Class 1 options, between three years and ten years from the date of grant and, in the case of Class 2 options, in the period between five years and ten years from the date of grant.

There are no performance criteria attached to the exercise of Class 1 options. The exercise of Class 2 options is dependent upon the percentage increase in eps of the Company, calculated over any six consecutive accounting periods (the earliest being not earlier than 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 of those companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index.

(b) **Airtours 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 Airtours 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 Airtours 1999 SAYE scheme by shareholders, no further options will be granted under the Airtours 1993 SAYE scheme.

The Airtours 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 to apply for the grant either of options 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) **Airtours 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 Airtours SAYE schemes that exercise their options from time to time.

REMUNERATION REPORT

(d) Airtours plc 1999 executive share option scheme The Airtours 1999 executive share option scheme was adopted at the Company's Annual General Meeting held on 11 February 1999 and comprises two parts, the Airtours plc company share option plan, which has been approved by the Inland Revenue, and the Airtours plc unapproved discretionary share option scheme 1999. All employees, subject to selection by either the Remuneration Committee or the Airtours 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 Airtours, 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 Airtours, which 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 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 will be granted at an option price, which is 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.

Service contracts Each of the Executive Directors has a service contract with the Company.

The service contract of Mr B C Sandahl is terminable by the Company giving not less than 12 months' notice.

Mr H H Collinson's contract is terminable by the Company giving not less than nine months' notice and provides that, upon termination, Mr Collinson would receive a sum not exceeding 87% of his then maximum aggregate annual entitlement to salary, bonus and pension contributions. It also provides that Mr Collinson would continue, for a period of 15 months following termination, to receive certain other benefits provided under the contract (or payment in lieu, to the extent that such benefits can no longer be provided).

The service contracts of the other Executive Directors are terminable by the Company giving not less than 24 months' notice.

Non-Executive Directors A committee comprising Executive Directors determines the remuneration of the Non-Executive Directors. They do not receive bonus payments or share options and they are not members of the Company's pension scheme. Save for Sir Michael Bishop, Mr R O Davies, Sir Tom Farmer and Mr E F Sanderson, who each have a letter of appointment which provide that their appointment is terminable by the Company giving not less than six months' notice, none of the other Non-Executive Directors has a service contract or letter of appointment.

Remuneration in respect of Directors was as follows:

(£000)	**Annual base salary September 1999**	Salary and fees	Bonus	Benefits	Pension contributions	**Total 1999**	Total 1998
Executive							
D Crossland, Chairman	520	485	260	84	—	829	768
T R Byrne	300	262	150	17	37	466	366
A H Coe	420	395	210	21	109	735	689
H H Collinson	312	307	156	12	156	631	650
M C Lee	300	284	150	16	40	490	497
B C Sandahl	266	257	140	8	95	500	451
L Thuesen	300	256	556	56	—	868	365
		2,246	1,622	214	437	4,519	3,786
Non-Executive							
M M Arison	—	—	—	—	—	—	—
Sir Michael Bishop	50	50	—	—	—	50	50
R O Davies	33	173	—	—	—	173	103
Sir Tom Farmer	17	17	—	—	—	17	17
H S Frank	—	—	—	—	—	—	—
E F Sanderson	17	17	—	—	—	17	17
		257	—	—	—	257	187
Total emoluments		2,503	1,622	214	437	4,776	3,973

REMUNERATION REPORT

On 28 September 1998 the Company agreed to pay to Mr L Thuesen (who was appointed to the Board on 13 May 1998) the sum of £406,250 in settlement of his accrued entitlement under a divisional bonus scheme arising from his employment with the Group, which had become inappropriate as a consequence of his appointment to the Board. Mr Thuesen agreed to apply the net amount received in purchasing, in the market, shares in the Company and on 30 September 1998 acquired 70,000 shares in the Company. This amount, which is included in the table above, was paid to Mr Thuesen on 6 October 1998.

Mr R O Davies was engaged by the Company to provide consultancy advice in relation to the Company's bid for First Choice Holidays plc and received £140,000 in respect of such consultancy services. This amount is included in the table above.

In addition to the above, compensation for loss of office amounting to £85,245 was paid during the year ended 30 September 1998 to a former Director of the Company.

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 1998 and 30 September 1999 were as follows:

	Ordinary shares **1999**	Ordinary shares 1998	1999 Executive scheme **1999**	1986 Executive scheme Class 1 options **1999** & 1998	1986 Executive scheme Class 2 options **1999** & 1998	SAYE scheme options **1999**	SAYE scheme options 1998
D Crossland	48,539,874	48,539,874	—	—	—	—	—
M M Arison*	123,344,501	123,344,501	—	—	—	—	—
Sir Michael Bishop	201,600	201,600	—	—	—	—	—
T R Byrne	—	—	—	—	360,000	8,859	8,859
A H Coe**	147,933	129,138	—	150,000	271,620	—	18,795
H H Collinson	118,795	100,000	—	—	195,000	—	18,795
R O Davies	30,000	30,000	—	—	—	—	—
Sir Tom Farmer	75,000	75,000	—	—	—	—	—
H S Frank	—	—	—	—	—	—	—
M C Lee***	147,664	127,869	—	300,000	421,620	—	18,795
B C Sandahl	—	—	—	—	—	—	—
E F Sanderson	18,720	18,720	—	—	—	—	—
L Thuesen	70,000	70,000	198,976	—	—	—	—

* Mr M M Arison's interests arise from the fact that, pursuant to section 324 of the Companies Act 1985, by reason of his shareholding in Carnival Corporation, he is interested in the 123,344,501 ordinary shares (1 October 1998: 123,344,501) registered in the name of Carnival (UK) plc a wholly-owned subsidiary of Carnival Corporation.

** Of the 147,933 ordinary shares (1 October 1998: 129,138) 70,782 (1 October 1998: 70,782) represents a non-beneficial interest.

*** Of the 147,664 ordinary shares (1 October 1998: 127,869) 1,250 (1 October 1998: 250) represents a non-beneficial interest.

In the period between 30 September 1999 and 5 November 1999 there were no changes in the Directors' interests referred to above.

As at 30 September 1999 the undermentioned Directors had outstanding the following options to acquire ordinary shares of the Company under the terms of the Airtours plc executive share option scheme (1986), the Airtours plc 1999 executive share option scheme or the Airtours plc SAYE schemes.

REMUNERATION REPORT

		At 30 September 1999	At 1 October 1998	Exercise price	Date from which exercisable	Expiry date
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
A H Coe	Class 2	121,620	121,620	38.56p	05.07.96	04.07.01
	SAYE	—	18,795	91.70p	—	—
	Class 1	150,000	150,000	149.50p	05.08.97	04.08.04
	Class 2	150,000	150,000	149.50p	05.08.99	04.08.04
H H Collinson	SAYE	—	18,795	91.70p	—	—
	Class 2	*195,000*	*195,000*	*149.50p*	*05.08.99*	*04.08.04*
M C Lee	Class 2	121,620	121,620	38.56p	05.07.96	04.07.01
	SAYE	—	18,795	91.70p	—	—
	Class 1	300,000	300,000	149.50p	05.08.97	04.08.04
	Class 2	300,000	300,000	149.50p	05.08.99	04.08.04
L Thuesen	*1999 Executive Scheme:*					
	Approved Options	7,653	—	392.00p	*	*
	Unapproved Options	191,323	—	392.00p	*	*

* The earliest exercise date is as soon as practicable after 30 September 2002 given that the Company's compound eps growth over the three years ending on 30 September 2002 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.

The mid-market price of the Company's ordinary shares at the close of business on 30 September 1999 was 387.0p (1998: 352.5p) and the range during the financial year ended 30 September 1999 was 287.5p to 544.5p. 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.

Save for a grant of an option over 198,976 ordinary shares made to Mr L Thuesen at an option price of £3.92 per share on 29 September 1999 no other options have been granted to Directors in the year ended 30 September 1999. No Directors' share options lapsed unexercised during the year.

Set out below is a summary of the gains on exercise made by Directors who exercised any share options during the year. Mr Collinson was the only Director to exercise any share options during the year ended 30 September 1998, making a gain of £598,650 in that year.

			Exercised during year	Exercise price	Market price at date of exercise	Gain (£)
A H Coe	SAYE	—	18,795	91.70p	484.5p	73,827
H H Collinson	*SAYE*	—	*18,795*	*91.70p*	*376.5p*	*53,528*
M C Lee	SAYE	—	18,795	91.70p	484.5p	73,827

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 new policies introduced following the adoption by the Company of Financial Reporting Standard 10 (Goodwill and Intangible Assets) and Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets).

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 are consolidated for the periods from 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. It is written off on a straight line basis over its useful economic life which is up to 20 years.

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 provision for permanent diminution in value. 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 cost** 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.

The treatment in respect of owned engines, auxiliary power units and airframes represents a change in policy from that adopted in previous years where the same treatment as for leased engines, auxiliary power units and airframes was adopted. The change has been made to accord with Financial Reporting Standard 12, which became effective for accounting periods ending on or after 23 March 1999. Comparative figures have not been restated due to the immaterial amounts involved.

6 **Investments** Except as stated below, 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.

7 **Associated and joint venture undertakings** Undertakings other than subsidiary undertakings, in which the Group has a long-term participating interest representing at least 20% of the voting rights 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 are 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 valued at the Group's share of net assets, after adjustment for goodwill.

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

9 **Tax** Corporation tax payable is provided on taxable profits at the current rate.

Provision is made for deferred tax using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced. It is calculated by reference to the tax rates estimated to be in effect in the year in which the timing differences reverse. Provision is not made for tax which would be payable if the net profit of overseas subsidiaries, joint ventures and associated undertakings were remitted to the UK.

10 **Income recognition** Turnover represents the aggregate amount of gross revenue receivable from inclusive tours, travel agency commissions received and other services supplied to customers in the ordinary course of business. Revenues and expenses relating to inclusive tours are taken to the Profit and Loss Account on holiday departure. 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. Turnover and expenses exclude intra-group transactions.

ACCOUNTING POLICIES

11 **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 overseas, and the pension costs charged against profits are based on actuarial methods and assumptions prescribed in accordance with local practice and legislation.

12 **Foreign currency** Each year an estimate of the results and net assets of certain of the Company's overseas subsidiary undertakings are hedged and 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 and 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 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.

13 **Leases** Assets held under finance leases are capitalised in the Balance Sheet and depreciated over their expected useful lives. The interest element of leasing 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 leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

14 **Finance costs** Finance costs of debt are recognised in the Profit and Loss Account over the term of such instruments at a constant rate on the carrying amount.

15 **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.

16 **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 and fuel contract to be treated as a hedge the instrument must be related to actual foreign currency and 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 and 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.

17 ***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.

GROUP PROFIT AND LOSS ACCOUNT

Year ended 30 September (£M)	1999	1999	1998	Notes
Turnover: Group and share of joint ventures				1
Continuing operations		3,713.1	3,054.9	
Acquisitions		58.2	—	
		3,771.3	3,054.9	
Less: share of joint ventures' turnover		(462.0)	(301.5)	1
Group turnover		3,309.3	2,753.4	
Cost of sales		(2,810.7)	(2,350.7)	2
Gross profit		498.6	402.7	
Net operating expenses before abortive bid costs	(382.1)		(299.9)	
Abortive bid costs	(4.5)		—	
Net operating expenses		(386.6)	(299.9)	2
Operating profit				1
Continuing operations	109.2		102.8	
Acquisitions	2.8		—	
		112.0	102.8	
Income from interests in joint venture undertakings		38.9	36.3	1
Net interest receivable/(payable)				1,3
Group		11.8	17.1	
Joint ventures		(11.8)	(15.9)	
Profit on ordinary activities before tax		150.9	140.3	1,4
Tax on profit on ordinary activities		(35.8)	(33.3)	6
Profit on ordinary activities after tax		115.1	107.0	
Equity minority interests		0.2	(0.3)	
Profit for the financial year		115.3	106.7	7
Dividends				8
Equity	(39.4)		(35.2)	
Non-equity	—		(1.0)	
		(39.4)	(36.2)	
Profit retained		75.9	70.5	23
Earnings per share				9
Basic		24.27p	24.08p	
– pre-goodwill amortisation and abortive bid costs		25.43p	24.08p	
– pre-goodwill amortisation		24.49p	24.08p	
Diluted		23.82p	22.98p	
– pre-goodwill amortisation and abortive bid costs		24.86p	22.98p	
– pre-goodwill amortisation		24.02p	22.98p	

The accounting policies on pages 34 and 35 and notes on pages 41 to 65 form part of these accounts.

GROUP BALANCE SHEET

At 30 September (£M)	1999	1998	Notes
Fixed assets			
Intangible assets – goodwill	36.9	—	10
Tangible assets	436.5	321.4	11
Joint venture undertakings			12
Share of gross assets	425.3	415.8	
Share of gross liabilities	(332.1)	(346.6)	
	93.2	69.2	
Other investments	14.4	2.4	12
	107.6	71.6	
Total fixed assets	581.0	393.0	
Current assets			
Stocks	11.4	17.0	13
Debtors: amounts falling due within one year	459.7	295.1	14
Debtors: amounts falling due after one year	115.4	118.7	15
Investments	12.0	11.1	16
Cash and deposits	554.2	364.2	17
	1,152.7	806.1	
Creditors: amounts falling due within one year	(948.8)	(802.0)	18
Net current assets	203.9	4.1	
Total assets less current liabilities	784.9	397.1	
Creditors: amounts falling due after one year			
Convertible debt	(292.3)	—	19
Other creditors	(144.4)	(138.2)	19
	(436.7)	(138.2)	
Provisions for liabilities and charges	(100.1)	(92.9)	21
Net assets	248.1	166.0	
Capital and reserves			
Called up share capital	47.8	47.5	22
Share premium account	92.5	84.6	23
Capital redemption reserve	3.2	3.2	23
Profit and loss account	103.8	29.6	23
Equity shareholders' funds	247.3	164.9	
Equity minority interests	0.8	1.1	
	248.1	166.0	

The accounts were approved by the Board of Directors on 17 November 1999

T R BYRNE
Director

The accounting policies on pages 34 and 35 and notes on pages 41 to 65 form part of these accounts.

COMPANY BALANCE SHEET

At 30 September (£M)	1999	1998	Notes
Fixed assets			
Tangible assets	51.3	38.1	11
Investments	420.1	392.1	12
	471.4	430.2	
Current assets			
Stocks	2.1	1.8	13
Debtors: amounts falling due within one year	758.5	556.6	14
Debtors: amounts falling due after one year	77.1	76.8	15
Investments	12.0	—	16
Cash and deposits	373.9	224.2	17
	1,223.6	859.4	
***Creditors:** amounts falling due within one year*	(834.5)	(737.9)	18
Net current assets	389.1	121.5	
Total assets less current liabilities	860.5	551.7	
Creditors: amounts falling due after one year			
Convertible debt	(292.3)	—	19
Other creditors	(54.8)	(75.9)	19
	(347.1)	(75.9)	
Provisions for liabilities and charges	(4.4)	(2.2)	21
Net assets	*509.0*	*473.6*	
Capital and reserves			
Called up share capital	47.8	47.5	22
Share premium account	92.5	84.6	23
Capital redemption reserve	3.2	3.2	23
Other reserves	153.6	153.6	23
Profit and loss account	211.9	184.7	23
Equity shareholders' funds	509.0	473.6	

The accounts were approved by the Board of Directors on 17 November 1999.

T R BYRNE
Director

The accounting policies on pages 34 and 35 and notes on pages 41 to 65 form part of these accounts.

GROUP CASH FLOW STATEMENT

Year ended 30 September (£M)	1999	1998	Notes
Net cash inflow from operating activities	108.1	98.4	24
Returns on investments and servicing of finance			
Interest received	35.2	30.0	
Interest paid	(24.6)	(12.3)	
Preference dividends paid	—	(1.9)	
Interest element of finance leases	(0.9)	(0.6)	
Issue costs of Convertible Bonds due 2004	(9.1)	—	
Minority interests	(0.2)	0.3	
Net cash inflow from returns on investments and servicing of finance	0.4	15.5	
Tax	(17.6)	(15.9)	
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(173.3)	(87.8)	
Purchase of fixed asset investments	(13.8)	—	
Loans to joint venture undertakings	(23.3)	(11.9)	
Sale of tangible fixed assets	2.4	2.6	
Sale of fixed asset investments	0.8	0.1	
Loans to joint venture undertaking repaid	10.2	61.9	
Net cash outflow from capital expenditure and financial investment	(197.0)	(35.1)	
Acquisitions and disposals			12
Purchase of subsidiary undertakings	(32.7)	(164.6)	
Acquisition expenses	(0.8)	(4.9)	
Sale of subsidiary undertakings	—	1.2	
Cash at bank and in hand acquired with subsidiaries	1.1	38.2	
Investment in joint venture undertakings	—	(19.6)	
Net cash outflow from acquisitions and disposals	(32.4)	(149.7)	
Equity dividends paid	(36.3)	(29.5)	
Cash outflow before use of liquid resources and financing	(174.8)	(116.3)	
Management of liquid resources			
Movement on term deposits	(172.1)	(19.3)	
Purchase of securities under managed investment	(23.7)	(16.0)	
Sale of securities under managed investment	22.8	15.8	
Net cash outflow from management of liquid resources	(173.0)	(19.5)	
Financing			
Issue of shares	3.7	80.3	
Expenses paid in connection with share issues	—	(1.0)	
Issue of Convertible Bonds due 2004	300.0	—	
Loan repayments	(5.4)	(1.9)	
Capital element of finance lease rental payments	(6.5)	(0.7)	
New finance leases	70.4	—	
Net cash inflow from financing	362.2	76.7	
Increase/(decrease) in cash in the year	14.4	(59.1)	

The accounting policies on pages 34 and 35 and notes on pages 41 to 65 form part of these accounts.

GROUP CASH FLOW STATEMENT (CONT'D)

Year ended 30 September (£M)	1999	1998
Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the year	14.4	(59.1)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(358.5)	2.6
Cash outflow from increase in liquid resources	173.0	19.5
Changes in net debt resulting from cash flows	(171.1)	(37.0)
Loans and finance leases acquired with subsidiary undertakings	—	(3.2)
Loan notes issued in year	(1.1)	(3.9)
Issue costs of Convertible Bonds due 2004	7.7	—
Exchange differences	3.8	(3.6)
Movement in net funds in the year	(160.7)	(47.7)
Net funds at 1 October	277.1	324.8
Net funds at 30 September	116.4	277.1

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 30 September (£M)	1999	1998
Profit for the financial year	115.3	106.7
Currency differences on foreign currency net investments	(3.1)	(9.3)
Total recognised gains and losses relating to the year	112.2	97.4

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

(£M)	1999	1998
Profit for the financial year	115.3	106.7
Dividends	(39.4)	(36.2)
	75.9	70.5
Exchange differences	(3.1)	(9.3)
Issue of shares (net of expenses)	3.7	86.5
Goodwill written back/(off) to reserves (see note 12)	5.9	(228.6)
Net increase/(decrease) in shareholders' funds	82.4	(80.9)
Equity shareholders' funds at 1 October	164.9	245.8
Equity shareholders' funds at 30 September	247.3	164.9

The accounting policies on pages 34 and 35 and notes on pages 41 to 65 form part of these accounts.

NOTES TO THE ACCOUNTS

1 SEGMENTAL INFORMATION

(£M)		1999	1998
Turnover			
UK	continuing	1,825.6	1,508.1
	acquisitions	12.7	—
Other Europe	continuing	1,103.6	972.8
	acquisitions	43.8	—
North America	continuing	321.9	272.5
	acquisitions	1.7	—
Group		3,309.3	2,753.4
Joint ventures	Costa	194.9	202.8
	FTi	251.8	88.1
	Tenerife Sol	9.8	8.0
	Lake Eve	5.5	2.6
Group and share of joint ventures		3,771.3	3,054.9

(£M)		Before goodwill and abortive bid costs	Goodwill	Abortive bid costs	1999	1998
Operating profit						
UK	continuing	95.6	(0.6)	(4.5)	90.5	84.1
	acquisitions	0.4	—	—	0.4	—
Other Europe	continuing	26.7	(0.4)	—	26.3	16.8
	acquisitions	2.0	—	—	2.0	—
North America	continuing	(7.5)	(0.1)	—	(7.6)	1.9
	acquisitions	0.4	—	—	0.4	—
		117.6	(1.1)	(4.5)	112.0	102.8
Income from interests in joint venture undertakings						
Costa					41.1	35.7
FTi					(4.7)	(0.6)
Tenerife Sol					2.9	2.3
Lake Eve					(0.4)	(1.1)
					38.9	36.3
Net interest receivable/(payable)						
Group						
UK	continuing				7.8	19.9
	acquisitions				0.1	—
Other Europe	continuing				7.3	0.2
North America	continuing				(3.4)	(3.0)
					11.8	17.1
Joint ventures						
Costa					(9.5)	(14.7)
FTi					(1.5)	(0.4)
Tenerife Sol					—	(0.1)
Lake Eve					(0.8)	(0.7)
					(11.8)	(15.9)

NOTES TO THE ACCOUNTS

1 SEGMENTAL INFORMATION (CONT'D)

(£M)		Before goodwill and abortive bid costs	Goodwill	Abortive bid costs	1999	1998
Profit on ordinary activities before tax						
UK	continuing	103.4	(0.6)	(4.5)	98.3	104.0
	acquisitions	0.5	—	—	0.5	—
Other Europe	continuing	34.0	(0.4)	—	33.6	17.0
	acquisitions	2.0	—	—	2.0	—
North America	continuing	(10.9)	(0.1)	—	(11.0)	(1.1)
	acquisitions	0.4	—	—	0.4	—
Joint ventures	Costa	31.6	—	—	31.6	21.0
	FTi	(6.2)	—	—	(6.2)	(1.0)
	Tenerife Sol	2.9	—	—	2.9	2.2
	Lake Eve	(1.2)	—	—	(1.2)	(1.8)
Profit on ordinary activities before tax		156.5	(1.1)	(4.5)	150.9	140.3

(£M)	1999	1998
Net assets		
UK	137.3	93.1
Other Europe	103.3	58.4
North America	7.5	14.5
	248.1	166.0

2 COST OF SALES AND NET OPERATING EXPENSES

(£M)	Continuing operations 1999	Acquisitions 1999	Total 1999	Total 1998
Cost of sales	2,761.6	49.1	2,810.7	2,350.7
Net operating expenses				
Selling costs	161.0	3.1	164.1	115.2
Administrative expenses – before abortive bid costs	201.5	3.1	204.6	159.0
Administrative expenses – abortive bid costs	4.5	—	4.5	—
Other charges	13.3	0.1	13.4	25.7
	380.3	6.3	386.6	299.9

The abortive bid costs represent the costs of the offers for First Choice Holidays plc which lapsed on 10 June 1999 and the costs associated with the European Commission's investigation into Airtours' proposed offers for First Choice Holidays plc.

NOTES TO THE ACCOUNTS

3 NET INTEREST RECEIVABLE/(PAYABLE)

(£M)	1999	1998
Interest payable on – bank borrowings	(10.9)	(7.2)
– other borrowings	(17.4)	(4.3)
Share of joint ventures' interest payable (see note 1)	(11.8)	(15.9)
Finance charges in respect of finance leases	(0.9)	(0.6)
	(41.0)	(28.0)
Interest capitalised	0.3	1.0
	(40.7)	(27.0)
Bank interest receivable	40.7	28.2
	—	1.2

4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

(£M)	1999	1998
The profit on ordinary activities before tax is stated after charging:		
Auditors' remuneration for audit services	*0.8*	*0.7*
Depreciation of tangible fixed assets – owned	46.0	36.9
– held under finance leases	12.8	0.1
Amortisation of goodwill	1.1	—
Operating lease payments – hire of aircraft and aircraft spares	95.9	93.7
– hire of other plant and machinery	2.5	*0.7*
– other	48.9	41.6

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 amounted to £5.6m (1998: £2.2m).

5 DIRECTORS AND EMPLOYEES

(£M)	1999	1998
Staff costs during the year were as follows:		
Wages and salaries	297.6	241.4
Social security costs	34.2	26.1
Other pension costs (see note 28)	9.6	8.6
	341.4	276.1

The average number of employees of the Group during the year was 19,949 (1998: 17,334).

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 London Stock Exchange are on pages 29 to 33 within the Remuneration Report and form part of these audited accounts.

NOTES TO THE ACCOUNTS

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

(£M)		1999	1998
The tax charge is based on the profit for the year and is made up as follows:			
UK	corporation tax at 30.5% (1998: 31%)	20.4	20.3
	deferred tax	8.9	7.0
		29.3	27.3
Overseas	corporation tax	5.1	2.3
	deferred tax	3.4	1.0
	tax on share of profits/(losses) of joint ventures	1.0	2.8
		38.8	33.4
Adjustments in respect of prior years			
UK	corporation tax	1.0	0.4
	deferred tax	(0.2)	(0.5)
Overseas	corporation tax	0.5	—
	tax on share of profits/(losses) of joint ventures	(4.3)	—
		35.8	33.3

7 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 profit after tax of the Company amounted to £71.1m (1998: £24.7m).

8 DIVIDENDS

(£M)	1999	1998
Equity dividends: ordinary		
Interim dividend of 1.65p per share paid 15 July 1999 (1998 1.50p)	7.9	6.7
Final dividend of 6.60p per share payable 16 February 2000 (1998: 6.00p)	31.6	28.5
Dividends paid and proposed to be paid to Employee Share Ownership Plan Trusts (ESOP) shares	(0.1)	—
	39.4	35.2
Non-equity dividends: convertible cumulative preference dividend		
3.1875p per share paid 1 April 1998	—	0.9
1.3239p per share paid 30 July 1998	—	0.1
	—	1.0
	39.4	36.2

The convertible cumulative preference shares were all converted into fully paid ordinary shares pursuant to the Company's Articles of Association during the financial year ended 30 September 1998.

NOTES TO THE ACCOUNTS

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the 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 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 earnings per share figures are presented. These exclude the effects of the amortisation of goodwill and also the effects of the abortive bid costs and are presented to allow comparison to the prior year on a like for like basis.

	Earnings (£M) 1999	Weighted average number of shares (million)* 1999	Per share amount (p) 1999	Earnings (£M) 1998	Weighted average number of shares (million)* 1998	Per share amount (p) 1998
Basic earnings per share						
Profit attributable						
to ordinary shareholders	115.3	475.4	24.27	105.7	439.3	24.08
Effect of dilutive securities:						
Options	—	5.1	(0.26)	—	7.1	(0.39)
Convertible Bonds	11.6	52.7	(0.19)	—	—	—
Convertible preference shares	—	—	—	1.0	18.0	(0.71)
Diluted earnings per share						
Adjusted profit	126.9	533.2	23.82	106.7	464.4	22.98

* The number of shares has been reduced by 1.4 million being the weighted average number of shares held by the employee share ownership trusts (1998: nil).

	Earnings (£M) 1999	Weighted average number of shares (million) 1999	Per share amount (p) 1999	Earnings (£M) 1998	Weighted average number of shares (million) 1998	Per share amount (p) 1998
Supplementary earnings per share to exclude goodwill amortisation and abortive bid costs						
Basic earnings per share	115.3	475.4	24.27	105.7	439.3	24.08
Effect of goodwill amortisation	1.1	—	0.22	—	—	—
Basic earnings per share pre goodwill amortisation	116.4	475.4	24.49	105.7	439.3	24.08
Abortive bid costs	4.5	—	0.94	—	—	—
Basic earnings per share pre goodwill amortisation and abortive bid costs	120.9	475.4	25.43	105.7	439.3	24.08
Diluted earnings per share	126.9	533.2	23.82	106.7	464.4	22.98
Effect of goodwill amortisation	1.1	—	0.20	—	—	—
Diluted earnings per share pre goodwill amortisation	128.0	533.2	24.02	106.7	464.4	22.98
Abortive bid costs	4.5	—	0.84	—	—	—
Diluted earnings per share pre goodwill amortisation and abortive bid costs	132.5	533.2	24.86	106.7	464.4	22.98

NOTES TO THE ACCOUNTS

10 INTANGIBLE ASSETS – GOODWILL

(£M)	Group	Company
Cost		
At 1 October 1998	—	—
Additions (see note 12)	38.0	—
At 30 September 1999	38.0	—
Amortisation		
At 1 October 1998	—	—
Provided in year	1.1	—
At 30 September 1999	1.1	—
Net book value at 30 September 1999	36.9	—
Net book value at 30 September 1998	—	—

11 TANGIBLE FIXED ASSETS

(£M)	Total	Freehold land and buildings	Short leaseholds	Assets in course of construction	Aircraft and aircraft spares	Cruise ships	Other fixed assets
Group							
Cost							
At 1 October 1998	500.4	74.2	43.9	3.0	123.3	70.8	185.2
Additions	173.4	23.1	13.1	—	51.7	1.0	84.5
Acquisition of subsidiary undertakings	5.7	—	0.7	—	—	—	5.0
Reclassifications	12.1	1.5	2.1	(3.0)	8.5	1.6	1.4
Exchange differences	(5.5)	(3.2)	(0.9)	—	0.5	—	(1.9)
	686.1	95.6	58.9	—	184.0	73.4	274.2
Disposals	(49.2)	(1.0)	(16.5)	—	(0.6)	—	(31.1)
At 30 September 1999	636.9	94.6	42.4	—	183.4	73.4	243.1
Depreciation							
At 1 October 1998	179.0	14.9	28.5	—	23.2	17.3	95.1
Provided in year	58.8	2.2	2.6	—	24.4	6.2	23.4
Acquisition of subsidiary undertakings	2.6	—	0.1	—	—	—	2.5
Reclassifications	9.2	(0.1)	0.1	—	10.6	(0.6)	(0.8)
Exchange differences	(3.2)	(0.7)	—	—	(0.6)	—	(1.9)
	246.4	16.3	31.3	—	57.6	22.9	118.3
Disposals	(46.0)	(0.4)	(16.5)	—	(0.3)	—	(28.8)
At 30 September 1999	200.4	15.9	14.8	—	57.3	22.9	89.5
Net book value at 30 September 1999	436.5	78.7	27.6	—	126.1	50.5	153.6
Net book value at 30 September 1998	321.4	59.3	15.4	3.0	100.1	53.5	90.1

The major items of reclassification include £4.0m representing advance payments on an aircraft simulator previously included in debtors and £1.3m of vacation ownership units previously included in stock. These were offset by a credit of £3.5m previously included in aircraft maintenance provisions (see note 21) and a charge of £1.1m previously included in debtors to accord with Financial Reporting Standard 12.

NOTES TO THE ACCOUNTS

11 TANGIBLE FIXED ASSETS (CONT'D)

(£M)	Total	Freehold land and buildings	Short leaseholds	Other fixed assets
Company				
Cost				
At 1 October 1998	63.3	2.6	3.6	57.1
Additions	21.5	—	0.5	21.0
	84.8	2.6	4.1	78.1
Disposals	(3.0)	—	—	(3.0)
At 30 September 1999	81.8	2.6	4.1	75.1
Depreciation				
At 1 October 1998	25.2	0.1	1.0	24.1
Provided in year	6.9	—	0.5	6.4
	32.1	0.1	1.5	30.5
Disposals	(1.6)	—	—	(1.6)
At 30 September 1999	30.5	0.1	1.5	28.9
Net book value at 30 September 1999	51.3	2.5	2.6	46.2
Net book value at 30 September 1998	38.1	2.5	2.6	33.0

Freehold land, amounting to £25.1m (1998: £14.8m) for the Group and £2.2m (1998: £2.2m) for the Company, has not been depreciated.

(£M)	Group 1999	Group 1998
The net book value of assets held under finance leases, none of which relate to the Company, included above is made up as follows:		
Land and buildings	5.8	4.0
Aircraft and aircraft spares	25.1	0.8
Cruise ships	47.6	—
Other fixed assets	1.3	0.1
	79.8	4.9

NOTES TO THE ACCOUNTS

12 FIXED ASSET INVESTMENTS

(£M)	Total	Own shares held under trust	Subsidiary undertakings	Joint venture undertakings	Associated undertakings	Other investments
Group						
Cost						
At 1 October 1998	71.6	1.5	—	69.2	0.1	0.8
Additions	11.5	11.0	—	(0.8)	—	1.3
Exchange differences	(6.6)	—	—	(6.6)	—	—
Disposals	(0.3)	—	—	—	—	(0.3)
Share of profits	31.4	—	—	31.4	—	—
At 30 September 1999	107.6	12.5	—	93.2	0.1	1.8
Company						
Cost						
At 1 October 1998	392.1	—	369.3	22.8	—	—
Additions	62.4	7.1	55.3	—	—	—
Other movements	(6.3)	—	(6.3)	—	—	—
Disposals	(28.1)	—	(5.8)	(22.3)	—	—
At 30 September 1999	420.1	7.1	412.5	0.5	—	—

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 all employees, including Directors.

During the year ended 30 September 1999, Airtours Trustee Limited purchased 995,616 shares in the Company on the open market at an average cost of £3.84 for a total consideration of £3.9m with funds borrowed from the Company.

During the year ended 30 September 1999, Mourant & Co Trustees Limited purchased 1,612,500 shares in the Company on the open market at an average cost of £4.42 for a total consideration of £7.1m with funds borrowed from the Company.

The number of shares held at 30 September 1999 by Airtours Trustee Limited and Mourant & Co Trustees Limited was 1,495,616 (1998: 500,000) and 1,612,500 (1998: nil) respectively. These shares had a market value at that date of £12.0m (1998: £1.8m).

Subsidiary undertakings

The movements during the year arise from changes in ownership of subsidiary undertakings within the Group.

A list of principal subsidiary and joint venture undertakings is shown in note 32 to the accounts on pages 64 and 65. All of the subsidiary undertakings have been consolidated in the Group accounts.

On 30 November 1998 the Company acquired the Travelworld Group Limited for an initial consideration of £9.2m, of which £8.1m was in cash and the remainder loan notes.

On 31 March 1999 the Group acquired Traveltrend Holding BV, a specialist long-haul tour operator based in Holland for an initial consideration of £0.6m.

On 29 April 1999 the Company acquired a 65% interest in Servicios de Administracion y Operacion de Hoteles, SA de CV, which operates the Blue Bay Resorts chain in Mexico and the Caribbean for an initial consideration of £1.5m and on 15 June 1999 the Group acquired BV Reisbureau Marysol, a tour operator based in Holland for a consideration of £6.0m.

On 30 July 1999 the Group acquired Trivselresor Holding AB of Sweden, a scheduled based tour operator, for a consideration of £7.2m.

NOTES TO THE ACCOUNTS

12 FIXED ASSET INVESTMENTS (CONT'D)

(£M)	Last financial year end	Profit/(loss) after tax for the last financial year	Profit/(loss) after tax from last financial year end to date of acquisition	Profit after tax from date of acquisition to 30 September 1999
The results of the above acquisitions have been consolidated using the acquisition method of accounting and the results of these acquisitions are set out below:				
The Travelworld Group Limited	31 October 1998	0.1	(3.4)	0.4
Traveltrend Holding BV	31 October 1998	(2.1)	(2.0)	0.4
Blue Bay	31 December 1998	0.1	0.3	0.4
BV Reisbureau Marysol	31 October 1998	0.8	(0.8)	1.7
Trivselresor Holding AB	30 April 1999	(0.1)	—	(0.1)

(£M)	Travelworld		Marysol	Trivselresor		Traveltrend	Blue Bay		
	Book value	Fair value adjustments	Book value and fair value	Book value	Fair value adjustments	Book value and fair value	Book value	Fair value adjustments	Total fair value to the Group
The following table sets out the major classes of assets and liabilities acquired:									
Fixed assets									
Intangible	0.9	(0.9)	—	1.7	(1.7)	—	—	—	—
Tangible	2.7	(0.4)	0.2	0.3	—	0.2	0.1	—	3.1
Current assets									
Debtors	17.3	(0.8)	3.6	3.3	—	2.0	0.3	(0.2)	25.5
Tax	—	—	0.3	0.1	—	0.3	—	—	0.7
Cash and deposits	0.3	—	1.6	—	—	0.3	—	—	2.2
Total assets	21.2	(2.1)	5.7	5.4	(1.7)	2.8	0.4	(0.2)	31.5
Creditors									
Overdrafts	—	—	—	(0.3)	—	(0.8)	—	—	(1.1)
Tax	(0.2)	—	—	—	—	—	—	—	(0.2)
Other creditors	(18.9)	(0.9)	(4.0)	(5.4)	—	(5.4)	(0.3)	—	(34.9)
Provisions									
Deferred tax	(0.4)	—	—	—	—	—	—	—	(0.4)
Total liabilities	(19.5)	(0.9)	(4.0)	(5.7)	—	(6.2)	(0.3)	—	(36.6)
Net assets/(liabilities)	1.7	(3.0)	1.7	(0.3)	(1.7)	(3.4)	0.1	(0.2)	(5.1)
Goodwill									35.5
Consideration									30.4

The principal fair value adjustments were the write off of acquired goodwill of £2.6m.

NOTES TO THE ACCOUNTS

12 FIXED ASSET INVESTMENTS (CONT'D)

(£M)	Travelworld	Marysol	Trivselresor	Traveltrend	Blue Bay	Total
The total consideration in respect of acquisitions in the year is made up as follows:						
Cash	8.1	6.0	7.2	0.6	1.5	23.4
Contingent consideration	3.7	—	—	0.3	1.1	5.1
Loan notes	1.1	—	—	—	—	1.1
Costs	0.3	0.1	—	—	0.4	0.8
	13.2	6.1	7.2	0.9	3.0	30.4

On 2 April 1999 the Group acquired the 35% minority interests of Air Belgium International NV and Reizen Air Belgium NV (together 'Air Belgium') generating goodwill of £1.7m.

(£M)	
The cash outflow in the year arising from acquisitions comprises:	
Cash consideration noted above	23.4
Cash consideration in respect of the acquisition of the minority interest in Air Belgium	1.3
Refunds in respect of acquisitions made in prior year	(6.3)
Amount outstanding at previous year end re-acquisition of Vacation Express	14.3
Net cash outflow from acquisitions of subsidiary undertakings	32.7

During the year the Company agreed to a revision to the terms of the purchase agreement for Direct Holidays acquired in July 1998 such that an amount of £5.7m previously paid into escrow was repaid to the Company. Reductions of £0.2m have also been made to the book value of assets on the acquisition of Panorama Holidays on 30 September 1998. Under the terms of the Panorama Holidays purchase agreement this led to the repayment of £0.6m of consideration previously paid. These adjustments together with a £0.2m accounting policy adjustment arising on the acquisition of Sun International in November 1997, all of which affect goodwill, have been credited to goodwill previously written off to profit and loss account reserves.

Joint venture undertakings

The investment in joint venture undertakings at 30 September 1999 represents a 50% equity interest in Il Ponte SpA which holds a 99.9% equity interest in Costa Crociere SpA, an Italian cruise operator, formerly listed on the Italian Stock Exchange, a 50% equity interest in Tenerife Sol SA, a hotel operator, incorporated and operating in Spain and a 35.92% interest in Frosch Touristik GmbH ('FTi') a German tour operator. In addition, as at 30 September 1999, the Group held, through its wholly owned subsidiary undertaking, Carousel Holidays Limited, a 50% share in a vacation ownership resort, Lake Eve Florida General Partnership.

During the year the Company's interest in Il Ponte SpA was transferred to another subsidiary undertaking within the Group. The Group also renegotiated its option to purchase FTi. As a consequence, the provision that the amount paid for the initial investment in FTi of DM50m may increase up to a maximum of DM110m has been removed. Airtours' call option to acquire the remaining balance of the share capital of FTi in 2002 has been amended so that it can now be exercised at any time between 1 July 1999 and 30 September 2001. If the option to acquire the remaining balance of the share capital of FTi is exercised a further cash payment of DM7 will be made at the time the option is exercised. The total consideration for the purchase of FTi will then be determined by the application of a formula based upon the pre-tax profits of FTi in certain of the financial years ending 30 September 2000, 2001, 2002 and 2003 dependent on when the call option is exercised. The total consideration payable by Airtours, inclusive of the earlier instalments, would be between DM155m (reduced from DM310m) and DM910m.

NOTES TO THE ACCOUNTS

12 FIXED ASSET INVESTMENTS (CONT'D)

(£M)	1999
On 31 December 1998 the Group increased its shareholding in FTi from 29.03% to 35.92% for a consideration of DM3.	
The total goodwill in respect of the acquisition of FTi is arrived at as follows:	
Total consideration	19.6
Share of net liabilities acquired	3.1
less: share of post acquisition losses	(2.0)
Total goodwill	20.7
less: accounted for on acquisition of 29.03% in May 1998	*(19.9)*
Goodwill on acquisition of 6.89% share in December 1998	0.8

(£M)	1999	1998
The Group's share of Costa's trading results are made up as follows:		
Turnover	*194.9*	*202.8*
Profit before tax	31.6	21.0
Tax	4.2	(2.0)
Profit after tax	35.8	19.0

(£M)	Total 1999	Total 1998	Costa 1999	Costa 1998	Others 1999	Others 1998
The Group's share of its joint ventures' net assets at 30 September 1999 of £93.2m (1998: £69.2m) is made up as follows:						
Fixed assets	329.7	323.9	305.0	300.6	24.7	23.3
Current assets	95.6	91.9	46.6	65.0	49.0	26.9
Gross assets	425.3	415.8	351.6	365.6	73.7	50.2
Liabilities due within one year	(111.0)	(107.5)	(56.4)	(76.8)	(54.6)	(30.7)
Liabilities due after one year	(221.1)	(239.1)	(203.1)	(226.3)	(18.0)	(12.8)
Total net assets	93.2	69.2	92.1	62.5	1.1	6.7

Other investments

Other investments in 1999 and 1998 are all unlisted and included at net book value.

NOTES TO THE ACCOUNTS

13 STOCKS

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Vacation ownership apartments held for resale	4.5	8.0	—	—
Goods held for resale	5.7	6.8	2.1	1.8
Consumables	1.2	2.2	—	—
	11.4	17.0	2.1	1.8

14 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Trade debtors	118.8	72.9	8.1	6.4
Amounts owed by subsidiary undertakings	—	—	633.5	478.0
Amounts owed by joint venture and associated undertakings	20.9	7.5	21.1	6.9
Current tax	—	—	—	2.2
Other debtors	84.7	42.4	11.6	7.9
Deposits and prepayments	235.3	172.3	84.2	55.2
	459.7	295.1	758.5	556.6

15 DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Amounts owed by associated undertakings	5.4	—	—	—
Other debtors	19.2	25.9	—	—
Deposits and prepayments	90.8	92.8	77.1	76.8
	115.4	118.7	77.1	76.8

NOTES TO THE ACCOUNTS

16 CURRENT ASSET INVESTMENTS

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
At 1 October	11.1	10.9	—	—
Additions	23.7	16.0	12.0	—
	34.8	26.9	12.0	—
Disposals	(22.8)	(15.8)	—	—
At 30 September	12.0	11.1	12.0	—

Current asset investments in 1999 and 1998 comprise solely of listed investments.

The market value of the investments are not significantly different from the carrying values stated above.

17 CASH AND DEPOSITS

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Cash at bank and in hand	163.2	145.3	29.5	27.8
Term deposits	391.0	218.9	344.4	196.4
	554.2	364.2	373.9	224.2

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

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Loans and overdrafts (see note 19)	56.4	6.9	20.5	3.4
Trade creditors	312.1	286.2	47.9	49.4
Amounts owed to subsidiary undertakings	—	—	565.2	494.5
Amounts owed to joint venture undertakings	0.4	0.3	0.2	0.2
Current tax	30.7	23.1	5.8	—
Social security and other taxes	12.2	11.4	3.7	3.3
Other creditors	51.8	71.7	13.3	25.1
Dividends	31.6	28.5	31.6	28.5
Accruals and deferred income	163.8	128.0	29.6	29.8
Amounts due under finance leases (see note 19)	10.4	0.2	—	—
Revenue received in advance	279.4	245.7	116.7	103.7
	948.8	802.0	834.5	737.9

19 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Convertible debt				
5.75% Subordinated Convertible Bonds due 2004	292.3	—	292.3	—
Other creditors				
Loans (see below)	32.1	86.2	30.4	49.4
Trade creditors	2.6	0.7	—	—
Other creditors	13.0	17.0	3.7	9.5
Accruals and deferred income	38.1	29.4	20.7	17.0
Amounts due under finance leases (see below)	58.6	4.9	—	—
	144.4	138.2	54.8	75.9
	436.7	138.2	347.1	75.9
Loans and overdrafts				
Bank loans	81.5	86.0	46.5	48.9
Other loan	0.3	0.3	—	—
Overdrafts	1.0	1.3	0.3	—
Unsecured loan notes	5.7	5.5	4.1	3.9
	88.5	93.1	50.9	52.8
Less: amounts falling due within one year	(56.4)	(6.9)	(20.5)	(3.4)
Amounts falling due after one year	32.1	86.2	30.4	49.4
Analysis of repayments				
Between one and two years	19.1	37.3	17.4	—
Between two and five years	13.0	48.9	13.0	49.4
	32.1	86.2	30.4	49.4

The £300m unsecured 5.75% Subordinated Convertible Bonds due 2004 are stated net of unamortised issue costs of £7.7m. The bonds are converted at the option of the bondholder at any time between 31 January 1999 and 31st December 2003 into fully paid ordinary shares of 10p each of the Company at an initial conversion price of 443p per ordinary share 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 middle 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.

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

NOTES TO THE ACCOUNTS

19 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR (CONT'D)

Of the bank loans £46.5m is an unsecured sterling loan, with a floating interest rate, repayable on 21 April 2002. £35.0m is an unsecured loan, with a floating interest rate, denominated in Greek drachma, repayable on 5 July 2000. The capital repayment is hedged and the loan is stated at the hedged rate. The difference between the sterling equivalent at the spot rate on the date of draw down and the hedged rate is included in accruals and deferred income and released to interest income over the term of the loan.

Of the £5.7m unsecured loan notes, £3.3m were issued by the Company in connection with the acquisition of Direct Holidays PLC in July 1998. £0.2m of the loan notes carry no interest until December 1999, when in common with the other £3.1m of the loan notes, and the £0.8m of loan notes remaining in issue following the acquisition of Travelworld, interest is payable at 35 basis points below the base lending rate of Barclays Bank plc. The interest rate on the unsecured loan notes of £1.6m, issued in connection with the acquisition of Winston Rees (World) Travel Limited by Going Places Leisure Travel Limited in 1994, is payable at bank base rate.

(£M)	Group 1999	Group 1998
Finance leases		
Total outstanding	69.0	5.1
Less: amounts falling due within one year	(10.4)	(0.2)
Amounts falling due after one year	58.6	4.9
Analysis of repayments		
Between one and two years	12.1	0.8
Between two and five years	37.4	2.7
After five years	9.1	1.4
	58.6	4.9

20 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's policies as regards derivatives and financial instruments are set out in the Operating & Financial Review on pages 22 and 23. 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 1999 was as follows:

(£M)	Total 1999	Total 1998
In one year or less	66.8	7.1
In more than one year but not more than two years	31.2	38.1
In more than two years but not more than five years	350.4	51.6
In more than five years	9.1	1.4
	457.5	98.2

20 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONT'D)

Borrowing facilities

The Group has no undrawn committed borrowing facilities at 30 September 1999 or at 30 September 1998.

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 (£M)	Total 1999	Floating rate	Fixed rate	Interest free	Total 1998	Floating rate	Interest free
Sterling	452.8	152.5	300.0	0.3	93.2	92.9	0.3
Swedish krona	4.7	4.7	—	—	5.0	5.0	—
Total	457.5	157.2	300.0	0.3	98.2	97.9	0.3

The interest rate on the fixed rate financial liabilities being the Subordinated Convertible Bonds *due 2004 is 5.75% per annum for the duration of their* life. Detail relating to the conversion and redemption of the bonds is set out in note 19 to the accounts.

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 rate. These rates are fixed in advance for periods ranging up to six months.

The Swedish krona floating rate financial liabilities compromise a finance lease liability bearing interest at rates based on STIBOR fixed quarterly in advance.

The weighted average period to maturity of the interest free loan is eight months (1998: 18 months).

Financial assets

Currency (£M)	Total 1999	Floating rate	Fixed rate	Non-interest bearing equity investments	Total 1998	Floating rate	Fixed rate	Non-interest bearing equity investments
The Group holds the following financial assets, other than short-term debtors such as trade debtors, accrued income and prepayments:								
Sterling	289.8	264.0	—	25.8	161.4	148.8	11.1	1.5
US dollar	77.5	73.5	4.0	—	27.9	27.9	—	—
Swedish krona	61.9	61.5	—	0.4	60.9	60.3	—	0.6
Norwegian krone	54.5	54.5	—	—	51.5	51.5	—	—
Danish krone	27.9	27.9	—	—	51.3	51.3	—	—
Euro	17.8	17.8	—	—	6.9	6.9	—	—
Other	63.2	63.1	—	0.1	25.7	25.5	—	0.2
Total	592.6	562.3	4.0	26.3	385.6	372.2	11.1	2.3

Financial assets comprise cash at bank and in hand of £554.2m (1998: £364.2m), fixed asset investments other than associates and joint ventures of £14.3m (1998: £2.3m), current asset investments of £12.0m (1998: £11.1m) and other debtors due in more than one year of £12.1m (1998: £8.0m). Non-interest bearing assets, other than £1.8m (1998: £0.8m) 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 4.88% and 70 days (1998: 6.23% and 68 days).

Currency exposures The main functional currencies of the Group are sterling, US dollar and various European currencies (now participating in the euro). The following analysis of net monetary assets and liabilities shows the Group's currency exposures after the effects of forward contracts and other derivatives used to manage currency exposure. The amounts shown represent the transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the Profit and Loss Account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or 'functional') currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations.

NOTES TO THE ACCOUNTS

20 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONT'D)

(£M)	Total 1999	US dollar	Other European currencies	Total 1998	US dollar	Other European currencies
Functional currency						
Sterling	23.8	25.4	(1.6)	2.2	(2.7)	4.9

At 30 September 1999, the Group also held open various currency swaps and forward contracts that had been taken out to hedge expected future foreign currency sales.

(£M)	Book value 1999	Fair value 1999	Book value 1998	Fair value 1998
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 1999.				
Primary financial instruments held or issued to finance the Group's operations				
Short-term financial liabilities and current portion of long-term borrowings	66.8	66.8	7.1	7.1
Long-term borrowings	390.7	390.7	91.1	91.1
Financial assets	592.6	592.1	385.6	385.9
Derivative financial instruments held to manage the interest rate, fuel and currency profile				
Forward rate agreements and interest rate swaps	—	4.5	—	(4.3)
Forward fuel contracts	—	21.7	—	(5.9)
Forward foreign currency contracts and options	4.8	(25.7)	3.4	35.0

The fair values of forward rate agreements, interest rate swaps, fuel contracts, forward foreign currency contracts and sterling denominated long-term fixed rate debt with a carrying amount of £3,432.6m 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 (£M)	Gains 1999	Losses 1999	Net 1999
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:			
Unrecognised gains and losses on hedges at 1 October 1998	53.4	(28.6)	24.8
Gains and losses recognised in the year arising in previous years	(53.4)	28.0	(25.4)
Gains and losses arising in previous years not recognised in the year	—	(0.6)	(0.6)
Gains and losses not recognised in the year arising in year	33.1	(32.0)	1.1
Unrecognised gains and losses at 30 September 1999	33.1	(32.6)	0.5
Of which:			
Gains and losses expected to be recognised in the year ending 30 September 2000	31.0	(30.4)	0.6
Gains and losses expected to be recognised after 30 September 2000	2.1	(2.2)	(0.1)
	33.1	(32.6)	0.5

NOTES TO THE ACCOUNTS

21 PROVISIONS FOR LIABILITIES AND CHARGES

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Deferred tax	55.7	44.0	4.4	2.2
Other provisions	44.4	48.9	—	—
	100.1	92.9	4.4	2.2

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Deferred tax				
At 1 October	44.0	33.0	2.2	0.5
Charged during the year	12.1	7.5	2.0	1.0
Acquired with subsidiary undertaking	0.4	0.4	—	—
Exchange differences	(1.0)	(1.7)	—	—
Advance corporation tax	0.2	4.8	0.2	0.7
At 30 September	55.7	44.0	4.4	2.2

(£M)	Provided 1999	Provided 1998	Potential 1999	Potential 1998
Deferred tax provided and the full potential liability for deferred tax are as follows:				
Group				
Accelerated capital allowances	52.6	37.1	61.5	44.0
Short-term timing differences	3.1	7.1	3.1	7.1
	55.7	44.2	64.6	51.1
Less: advance corporation tax	—	(0.2)	—	(0.2)
	55.7	44.0	64.6	50.9
Company				
Accelerated capital allowances	4.0	1.8	4.0	1.8
Short-term timing differences	0.4	0.6	0.4	0.6
	4.4	2.4	4.4	2.4
Less: advance corporation tax	—	(0.2)	—	(0.2)
	4.4	2.2	4.4	2.2

NOTES TO THE ACCOUNTS

21 PROVISIONS FOR LIABILITIES AND CHARGES (CONT'D)

(£M)	Total 1999	Total 1998	*Pension* provisions 1999	*Pension* provisions 1998	*Aircraft maintenance* provisions 1999	*Aircraft maintenance* provisions 1998
Other provisions						
At 1 October	48.9	48.2	5.9	5.7	43.0	42.5
Provided during the year	23.9	31.6	0.6	0.7	23.3	30.9
Acquired with subsidiary undertaking	—	1.5	—	—	—	1.5
Released unused	(4.0)	(4.0)	—	—	(4.0)	(4.0)
Reclassification (see note 11)	(3.5)	—	—	—	(3.5)	—
	65.3	77.3	6.5	6.4	58.8	70.9
Utilised in the year	(20.6)	(28.1)	(0.1)	(0.1)	(20.5)	(28.0)
Exchange differences	*(0.3)*	*(0.3)*	*(0.1)*	*(0.4)*	*(0.2)*	*0.1*
At 30 September	44.4	48.9	6.3	5.9	38.1	43.0

The pension provisions are long term and the timing of their utilisation 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. Neither the timing nor the value of the expenditure can be exactly determined but they can be averaged over a fleet and over time. This gives an accurate rate at which to accrue for the diminution in value of the aircraft caused by their utilisation.

22 SHARE CAPITAL

(£M)	1999	1998
Authorised		
Nil (1998: 51,569,480) unclassified shares of 20p each	—	10.3
736,275,000 (1998: 633,136,040) ordinary shares of 10p each	73.6	63.3
	73.6	73.6
Allotted, called up and fully paid		
477,928,744 (1998: 474,684,480) ordinary shares of 10p each	47.8	47.5

Authorised share capital At the Company's Annual General Meeting held on 11 February 1999 all of the Company's then authorised unclassified shares were each converted into and redesignated as two ordinary shares, so creating an additional 103,138,960 ordinary shares.

Allotments during the year During the year 1,531,952 ordinary shares were allotted under the terms of the Airtours share option scheme (1986) for an aggregate cash consideration of £2,123,221 and 1,710,959 ordinary shares were allotted to Airtours Quest Trustee Limited for an aggregate cash consideration of £6,140,106 for transfer on to those members of the Airtours SAYE scheme who exercised their options.

During September 1999 1,353 ordinary shares were allotted following a conversion of £6,000 of Subordinated Convertible Bonds due 2004.

Contingent rights to the allotment of shares Under the terms of the Airtours SAYE scheme 1999 options over 3,596,386 ordinary shares of 10p each were granted to certain employees within the Group at £3.95 per share exercisable normally between 1 June 2002 and 30 November 2002 in the case of three-year options and 1 June 2004 and 30 November 2004 in the case of five-year options.

NOTES TO THE ACCOUNTS

22 SHARE CAPITAL (CONT'D)

Date of grant	Subscription price per share	Share Option Scheme (1986) Class 1	Share Option Scheme (1986) Class 2	Share Option Scheme 1999	SAYE Scheme
At 30 September 1999 the following options to subscribe for ordinary shares of 10p each were outstanding:					
5 July 1991	38.56p	—	243,240	—	—
9 August 1993	124.64p	—	152,025	—	—
5 August 1994	149.50p	450,000	1,795,000	—	—
14 July 1995	135.67p	—	900,000	—	—
16 July 1995	136.33p	—	150,000	—	—
10 January 1997	194.70p	—	—	—	3,083,802
30 March 1999	395.00p	—	—	—	3,471,319
18 August 1999	421.50p	—	—	4,146,856	—
29 September 1999	392.00p	—	—	198,976	—

Options are normally exercisable in the following periods:
Class 1: between three years and ten years following the date of grant. **Class 2:** between five years and ten years following the date of grant. **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 in 1999.

The exercise of Class 2 options is dependent upon the percentage increase in earnings per share 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 earnings per share for the same period of the constituent company which, in terms of earnings per share 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.

23 RESERVES

(£M)	Share premium account	Capital redemption reserve	Other reserves	Profit and loss account
Group				
At 1 October 1998	84.6	3.2	—	29.6
Retained profit for the year	—	—	—	75.9
Goodwill written back to reserves (see note 12)	—	—	—	5.9
Premium on allotments during the year	7.9	—	—	—
Transfer in respect of QUEST	—	—	—	(4.5)
Exchange differences	—	—	—	(3.1)
At 30 September 1999	92.5	3.2	—	103.8
Company				
At 1 October 1998	84.6	3.2	153.6	184.7
Retained profit for the year	—	—	—	31.7
Premium on allotments during the year	7.9	—	—	—
Transfer in respect of QUEST	—	—	—	(4.5)
At 30 September 1999	92.5	3.2	153.6	211.9

NOTES TO THE ACCOUNTS

23 RESERVES (CONT'D)

During the year ended 30 September 1999, the Company received £6.1m (1998: £0.4m) from the issue of shares in respect of the exercise of options under the Airtours SAYE schemes administered by the Qualifying Share Ownership Trust (QUEST). Employees paid £1.6m (1998: £0.1m) to the Company for the issue of these shares and the balance of £4.5m (1998: £0.3m) 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 £211.9m (1998: £184.7m) are regarded as distributable.

The cumulative amount of goodwill arising from acquisitions in prior years which has been written off to Group reserves amounts to £418.3m (1998: £424.2m).

24 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

(£M)	1999	1998
Operating profit after abortive bid costs of £4.5m (1998: £nil)	112.0	102.8
Depreciation charges	58.8	37.0
Bond issue costs	1.4	—
Goodwill amortisation	1.1	—
Profit on sale of subsidiary undertakings	—	(1.4)
Profit on sale of tangible fixed assets	(0.9)	—
Profit on sale of investments	(0.5)	—
Decrease/(increase) in stocks	4.3	(8.5)
Increase in debtors	(122.7)	(68.8)
Increase in creditors	55.3	37.8
Decrease in provisions	(0.7)	(0.5)
Net cash inflow from operating activities	108.1	98.4

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

25 ANALYSIS OF NET FUNDS

(£M)	At 1 October 1998	Cash inflow/ (outflow)	Other non-cash changes	Exchange movements	At 30 September 1999
Cash at bank and in hand	145.3	14.1	—	3.8	163.2
Term deposits	218.9	172.1	—	—	391.0
Cash and deposits	364.2	186.2	—	3.8	554.2
Overdrafts	(1.3)	0.3	—	—	(1.0)
Debt due within one year	(5.6)	5.4	(55.2)	—	(55.4)
Debt due after one year	(86.2)	(300.0)	54.1	—	(332.1)
Issue costs of Convertible Bonds due 2004	—	9.1	(1.4)	—	7.7
Finance leases	(5.1)	(63.9)	—	—	(69.0)
Current asset investments	11.1	0.9	—	—	12.0
	277.1	(162.0)	(2.5)	3.8	116.4

NOTES TO THE ACCOUNTS

26 EFFECTS OF ACQUISITIONS

(£M)	Travelworld	Marysol	Trivselresor	Traveltrend	Blue Bay	Total
The subsidiary undertakings acquired during the year made the following contributions to Group cash flow:						
Cash inflow from operating activities	1.8	1.0	0.6	(0.9)	0.1	2.6
Returns on investments and servicing of finance	0.1	—	—	—	—	0.1
Tax	(0.3)	—	—	0.3	—	—
Capital expenditure and financial investment	(1.3)	—	—	(0.1)	—	(1.4)
Increase/(decrease) in cash in the period	0.3	1.0	0.6	(0.7)	0.1	1.3

27 FINANCIAL COMMITMENTS

(£M)	Group 1999	Group 1998	Company 1999	Company 1998
Contracted but not provided in these financial statements	29.8	3.1	23.3	—

In addition to those noted above the Group's share of the capital commitments of Costa and FTi at 30 September 1999 is £125.4m (1998: £122.8m) and £nil (1998: £0.7m) respectively.

(£M)	Land and buildings 1999	Land and buildings 1998	Aircraft and aircraft spares 1999	Aircraft and aircraft spares 1998	Other 1999	Other 1998
Annual commitments under non-cancellable operating leases are as follows:						
Group						
Expiring in one year or less	5.6	5.1	8.3	4.9	3.2	0.2
Expiring between one and five years	12.5	9.6	44.8	58.5	9.6	3.6
Expiring in five years or more	24.7	21.7	39.0	24.0	5.8	5.2
	42.8	36.4	92.1	87.4	18.6	9.0
Company						
Expiring in one year or less	—	—	—	—	—	—
Expiring between one and five years	0.2	0.2	—	—	9.2	2.1
Expiring in five years or more	0.4	—	—	—	5.8	5.2
	0.6	0.2	—	—	15.0	7.3

28 PENSIONS

Employees of the Company, Going Places Leisure Travel Limited and Airtours International Airways Limited participate in the Company's defined contribution pension scheme. The total pension charge for the year amounted to £4.3m (1998: £3.1m). No amounts were outstanding at the year end.

The Group also operates a number of defined benefit pension schemes, principally in Sweden and Norway. The total pension charge for the year amounted to £5.3m (1998: £5.5m). No amounts were outstanding at the year end. In Sweden the pension costs are accrued based on amounts prescribed by the state and in Norway pension costs are accrued based on amounts prescribed by insurance companies with whom the obligation to provide pension benefits is contracted.

NOTES TO THE ACCOUNTS

29 CONTINGENT LIABILITIES AND GUARANTEES

At 30 September 1999 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 £485.4m (1998: £423.3m). 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.

Not included in the above amounts are contingent liabilities of £105.2m (1998: £83.3m) under counter indemnities given to bankers of the Group's joint venture undertakings.

30 POST BALANCE SHEET EVENTS

On 1 October 1999 the Company acquired the remaining 50% shareholding in Lake Eve Florida Partnership, a vacation ownership resort. On 15 November 1999 the Group raised £210.0m (before expenses) of undated preference shares. In the consolidated accounts, the preference shares will be accounted for as a non-equity minority interest. The proceeds will be used to enable the Group to enlarge its operations as suitable acquisition opportunities arise.

31 RELATED PARTY TRANSACTIONS

During the year Airtours Holidays and Scandinavian Leisure Group purchased hotel accommodation amounting to £0.9m (1998: £0.7m) from Tenerife Sol, a joint venture undertaking. At 30 September 1999 the outstanding balances payable to Tenerife Sol amounted to £0.2m (1998: £0.1m). In addition, Airtours Holidays purchased hotel accommodation amounting to £0.2m (1998: nil) from FTi, a joint venture undertaking. This amount was outstanding at the year end (1998: nil). Airtours Holidays also purchased cabin accommodation and other cruise services from Carnival Cruises, a company in which Mr M M Arison, who is a Non-Executive Director in the Company, is interested by virtue of his shareholding in Carnival Corporation the parent undertaking of Carnival Cruises, and Costa Cruises, a subsidiary undertaking of Il Ponte SpA, a joint venture undertaking, amounting to £3.1m (1998: £4.3m) and £30k (1998: £0.6m) respectively during the year. At 30 September 1999 the outstanding amounts payable to Carnival and to Costa amounted to £0.6m (1998: £0.5m) and £5k (1998: £0.1m) respectively.

During the year Going Places sold holidays operated by Costa and Carnival amounting to £0.3m (1998: £0.5m) and £0.1m (1998: £0.2m) respectively. At 30 September 1999 the outstanding balances payable to Costa amounted to £37k (1998: £0.1m). No amounts were outstanding to Carnival (1998: nil).

Maretours NV, an associated undertaking of Sun International sold holidays operated by Sun International amounting to £6.7m (1998: £3.8m). At 30 September 1999 the outstanding amount due from Maretours NV was £0.2m (1998: £0.2m).

In the year ended 30 September 1999 an amount of £0.6m (1998: £0.8m) became due to subsidiaries of the Company from Lake Eve Development, a joint venture undertaking, in respect of services supplied by certain employees of the Group. At 30 September 1999 no amount was outstanding to the Group (1998: nil).

An amount of £9.0m (1998: £6.9m) was loaned to, and subsequently repaid by, Il Ponte SpA during the year. No loans were outstanding at 30 September 1999 or the previous year end. At 30 September 1999 £0.4m (1998: £2.3m) was outstanding in respect of the financing of the acquisition of Costa. During the year the Group loaned £7.6m (1998: £1.5m) and £11.8m (1998: £3.5m) respectively to Lake Eve and FTi. At 30 September 1999 £9.1m (1998: £1.5m) and £14.0m (1998: £3.5m) were outstanding from Lake Eve and FTi.

During the year Scandinavian Leisure Group purchased flight capacity amounting to £5.0m (1998: £7.8m) from Braathens ASA, a company listed on the Norwegian Stock Exchange, in which Mr P Braathen, an officer of various Group companies, is interested by virtue of being chairman and major shareholder of two companies that between them control 39% of the shares in Braathens ASA. No amounts were outstanding at the year end (1998: nil). Premiair also incurred operational costs, mainly related to ground handling, from Braathens amounting to £1.0m (1998: £1.2m) of which £0.1m (1998: £0.2m) was outstanding at the year end. In addition, Air Belgium incurred costs of £2.9m during the year in relation to engine maintenance carried out by Braathens. No amount was outstanding at the year end.

Fly FTi, a newly established charter airline wholly owned by FTi was recharged operational costs of £7.2m during the year by Airtours Group Companies. At 30 September 1999 an amount of £2.5m was outstanding from Fly FTi.

During the year ended 30 September 1997 a loan facility of $40.0m was taken by Lake Eve from the British Linen Bank Limited, in respect of which 50% has been guaranteed by the Company. This facility was taken by Lake Eve at a time when Mr E F Sanderson, a Director of the Company, was chief executive of the British Linen Bank Limited and, accordingly, Mr Sanderson is interested in such transaction.

NOTES TO THE ACCOUNTS

32 PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

		Country of incorporation and operation	Proportion held by parent Company (%)	Proportion held by the Group (%)
At 30 September 1999 the Group's principal subsidiary and joint venture undertakings were:				
Tour operators	Airtours Holidays Limited	England	100	
	Bridge Travel Service Limited	England		100
	Cresta Holidays Limited	England		100
	Direct Holidays PLC	England		100
	Eurosites Limited	England	100	
	Panorama Holiday Group Limited	England		100
	North American Leisure Group Inc	Canada		100
	Sunquest Holidays Inc	USA		100
	SunTrips Inc	USA		100
	V E Holdings Inc	USA		100
	Scandinavian Leisure Group AB	Sweden		100
	Vingresor AB	Sweden		100
	Always AB	Sweden		100
	Ving Norge AS	Norway		100
	Saga Solreiser AS	Norway		100
	Ving A/S	Denmark		100
	Spies A/S	Denmark		100
	Tjaereborg Reiser A/S	Denmark		100
	Globetrotter Holding A/S	Denmark		100
	Oy SLG Holdings AB	Finland		100
	Sunair NV	Belgium		100
	Sun International Holidays NV	Belgium		100
	Sun Reizen NV	Belgium		100
	Sunair Sarl	France		100
	Voyage Conseil SA	France		100
	Unitravel Beheer BV	Holland		100
	BV Reisbureau Marysol	Holland		100
	Travel Trend BV	Holland		100
	Ving Sp. z.o.o.	Poland		100
	Frosch Touristik GmbH	Germany		35.92
Hotel operators	Sunwing AB	Sweden		100
	Hoteles Sunwing SA	Spain		100
	Tenerife Sol SA	Spain		50
	Sunwing Hotels Hellas SA	Greece		100
	Sunwing Hotels (Cyprus) Limited	Cyprus		100
	Servicios de Administracion y Operacion de Hoteles SA de CV	Mexico		65
Cruise operators	Sun Cruises Limited	England	100	
	Costa Crociere SpA	Italy		49.96

PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS (CONT'D)

		Country of incorporation and operation	Proportion held by parent Company (%)	Proportion held by the Group (%)
Airlines	Airtours International Airways Limited	England		100
	Premiair A/S	Denmark		100
	Air Belgium International NV	Belgium		100
	FTi Flugessellschaft mbH	Germany		35.92
Travel retailers	Going Places Leisure Travel Limited	England		100
	The Travelworld Group Limited	England		100
	Late Escapes Limited	England		100
	Allkauf Touristik GmbH	Germany		35.92
Agency companies	Eurosites A/S	Denmark		100
	Eurosites GmbH	Germany		100
	Eurosites BV	Holland		100
	Eurosites Vacances SA	France		100
	Viagens Astral SA	Portugal		100
	Viajes Astral SA	Spain		100
	Viajes Astral Canarias SA	Spain		70
Vacation ownership	Anfinpan SL	Spain		100
	Lake Eve Development	USA		50
Insurance company	White Horse Insurance Limited	Guernsey		100
Investment and/or holding companies	Airtours Finance Limited	Guernsey	100	
	Airtours Resort Ownership Espana 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	
	CLG Holdings Inc	Canada		100
	Il Ponte SpA	Italy		50
	Parkway Holdings BV	Holland		100
	White Horse Holdings BV	Holland	100	
	Scandinavian Leisure Group Holdings AB	Sweden		100
	Scandinavian Leisure Group Leasing A/S	Norway		100
	WELG Holding NV	Belgium		100
	Sun International (UK) Limited	England		100
	UKLG Limited	England	100	
	NALG Holding	Ireland		100
	AB9807 Beteiligungsverwaltungs GmbH	Germany		100

AUDITORS' REPORT

To the shareholders of Airtours plc We have audited the accounts on pages 34 to 65 which have been prepared under the historical cost convention and the Accounting Policies set out on pages 34 and 35. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the Directors which form part of the Remuneration Report on pages 29 to 33.

Respective responsibilities of Directors and auditors The Directors are responsible for preparing the Annual Report including, as described on page 28, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the statement on page 27 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30 September 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

ARTHUR ANDERSEN
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester M1 4EU
17 November 1999

FIVE YEAR REVIEW

(£M)	1999	1998	1997	1996	1995
Profit and loss account					
Group turnover	3,309.3	2,753.4	2,235.6	1,776.2	1,376.4
Profit on ordinary activities before tax	150.9	140.3	120.3	86.8	59.4
Tax on profit on ordinary activities	35.8	33.3	29.6	21.7	16.4
Profit for the financial year	115.3	106.7	90.5	64.9	43.0
Dividends	39.4	36.2	31.1	24.9	19.3
Profit retained	75.9	70.5	59.4	40.0	23.7
Balance sheet					
Goodwill	36.9	—	—	—	—
Tangible fixed assets	436.5	321.4	267.8	256.4	197.9
Investments	119.6	82.7	63.0	16.2	9.7
Cash and deposits	554.2	364.2	406.6	425.6	304.5
Stocks	11.4	17.0	6.4	6.8	3.6
Debtors	575.1	413.8	331.7	235.9	168.6
Creditors	1,385.5	940.2	748.0	670.0	514.7
Provisions for liabilities and charges	100.1	92.9	81.2	63.4	50.7
Net assets	248.1	166.0	246.3	207.5	118.9
Statistics					
Basic earnings per share	24.27p	24.08p	21.27p	16.41p	11.65p
Diluted earnings per share	23.82p	22.98p	19.71p	15.33p	10.97p
Dividend per ordinary share	8.25p	7.50p	6.67p	5.33p	4.67p
Net assets per ordinary share	51.92p	34.98p	57.54p	50.95p	34.37p
Ratios					
Dividend cover	2.93	2.95	2.91	2.61	2.23
Share data					
Number of shares in issue – period end	477.9m	474.7m	428.0m	407.2m	346.1m
– average	475.4m	439.3m	413.5m	376.0m	341.8m
Diluted number of shares	533.2m	464.4m	458.9m	423.2m	392.3m
Share price					
High	544.50p	541.00p	413.33p	203.33p	152.33p
Low	287.50p	282.50p	197.83p	103.00p	115.00p
Average	435.67p	429.38p	315.49p	153.08p	139.28p

Note: The figures for earnings, dividend and net assets per share, share data and share price information before 1998 have been restated to take account of the Capitalisation Issue to existing shareholders in 1998. Diluted earnings per share for earlier years has also been restated to take account of Financial Reporting Standard 14.

SHAREHOLDER INFORMATION

		Number of holders	Ordinary shares held
Analysis of shareholders			
At 30 September 1999 there were 6,295 shareholders registered compared with 5,565 at 30 September 1998			
Category	Individuals	5,576	85,744,680
	Carnival (UK) Limited	1	123,344,501
	Life/Insurance funds	32	56,546,836
	Pension funds	193	85,152,381
	Unit trusts	43	18,103,369
	Investment trusts	18	3,886,386
	Overseas funds	201	90,863,078
	Other	231	14,287,513
		6,295	477,928,744

Financial calendar	Transfer books close	14 January 2000
	Annual General Meeting	20 January 2000
	First quarter results announced	February 2000
	Final dividend payable	16 February 2000
	Interim results announced	May 2000
	Interim dividend payable	June 2000
	Third quarter results announced	August 2000
	Final results announced	November 2000

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 Airtours' holiday (including Airtours Holidays, Tradewinds, Bridge Travel, Cresta, Eurosites, Panorama, Aspro, Direct Holidays and Direct Cruises).

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 an Airtours International flight the prebookable 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 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. Should you have any after sales enquiries please contact our Shareholder Premier Line customer services department on 0870 161 6899 during normal working hours on any week day and on Saturday morning.

In addition, shareholders in the UK are entitled to a discount of 12.5% on the list price of Vacation Ownership weeks in Orlando and Gran Canaria. All applications or enquiries for discounts on Vacation Ownership weeks should be made on telephone number 01923 691 700 extension 313.

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.

Low-cost share dealing service

This service offered by Hoare Govett allows shareholders to buy and sell the Company's shares in a simple and low-cost manner. For further details contact Hoare Govett Limited, 250 Bishopsgate, London EC2M 4AA or for a brochure telephone 0171 601 0101.

Personal equity plan holders

Bradford and Bingley (PEPs) Limited has transferred its corporate PEP business to The Share Centre Limited which has become the new plan manager with effect from 6 April 1999. Existing PEP holders have been contacted individually by The Share Centre whose address is: The Share Centre, PO Box 1000, Tring, Herts HP23 5AN. Tel: 01442 890844.

Shareholder enquiries

The Company's share register is maintained by Lloyds TSB Registrars Scotland, 117 Dundas Street, Edinburgh EH3 5ED.

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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