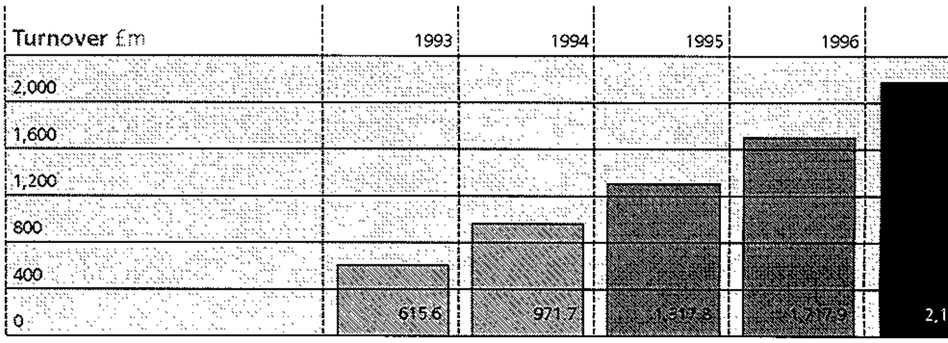
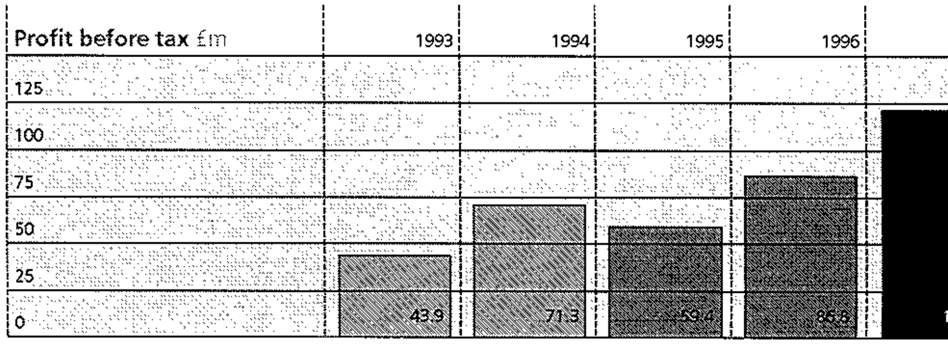
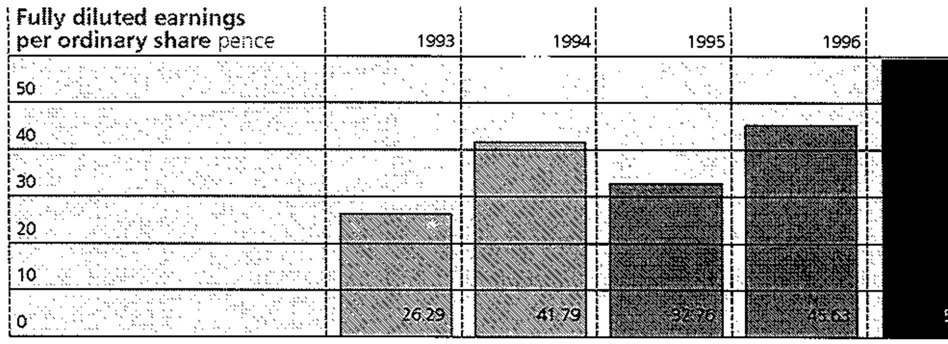
Airtours

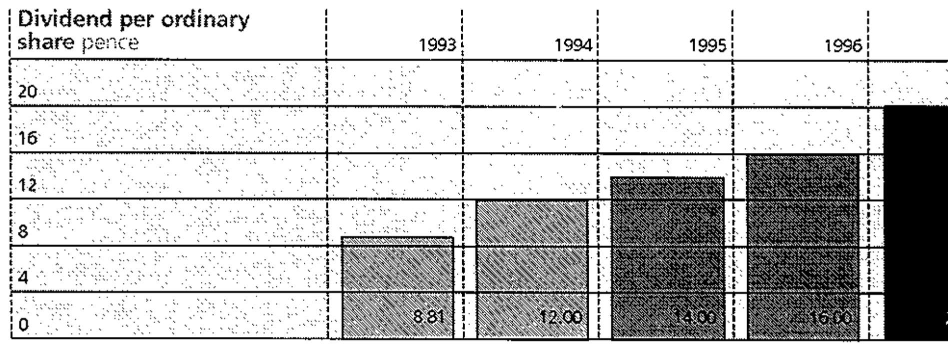
Report and accounts 1997

Financial highlights









Chairman's statement

In the ten years since Airtours obtained a full listing for its shares on the London Stock Exchange, profit before tax has increased from £2.0m in 1987 to £120.3m this year, over the same period earnings per share has shown an annual compound growth rate of 41.0%.

David Crossland

Financial performance The twelve months to 30th September 1997 marked the completion of Airtours' tenth year since obtaining a full listing for its shares on the London Stock Exchange and I am pleased to announce that once again the Group has achieved record profits and earnings per share. Profit before tax of £120.3m is a 38.6% increase over the previous year and fully diluted earnings per share show a 29.4% increase to 59.04p.

The majority of the increase in profit arose from our UK businesses which benefited from a market where supply and demand were in equilibrium. Profits in our Scandinavian businesses grew by 11.7% to £39.2m, due in part to the successful integration of the Spies and Tjaereborg businesses acquired in February 1996. Whilst the Group made a loss in North America, this arose mainly as a result of the start up costs and initial trading losses of our new business, Sunquest Holidays in Southern California. Included in the Group's result for the first time is our share of profits from our investment in Costa Crociere (Costa) which amounted to £5.1m.

Strategy Airtours' core business is that of tour operations. As tour operators, our key objectives are to increase the number of different geographic areas in which we operate, to continue the development of new products and to improve upon existing ones, thus enabling the Group to build further upon its position as the world's largest provider of air inclusive holidays. Each expansion of our tour operating businesses creates new opportunities for profitable investment in our

	1997	1996	% i
Turnover £m	**2,174.3**	1,717.9	
Profit before tax £m	**120.3**	86.8	
Basic earnings per ordinary share pence	**63.82**	49.23	
Fully diluted earnings per ordinary share pence	**59.04**	45.63	
Dividend per ordinary share pence	**20.00**	16.00	
Net assets £m	**246.3**	207.5	

cruise, hotel, airline, distribution and timeshare operations. These businesses support, protect and complement our tour operations and enable us to provide our customers with a wider range of products and services than any of our competitors.

Over the last four years Airtours has undergone a radical transformation from what was a solely UK based company, into a geographically diversified group with earnings from a range of mutually supportive businesses operating in different markets. We have realised substantial benefits from the successful integration of new businesses into the Group. The management skills within the acquired businesses have been retained and will play a major part in the future development of the Group.

Whilst we will continue to expand our overseas business interests to provide a balance to our UK earnings, we will also continue to develop our UK businesses as opportunities arise. A prime example of this has been our conditional agreement to acquire Sun International. If completed, the acquisition will make Airtours the largest provider of short break holidays from the UK, and at the same time establish our presence in the mainstream tour operating markets of Belgium, Holland and France.

Monopolies and Mergers Commission (MMC) A year has elapsed since the package holiday industry was referred to the MMC. We have now concluded our submissions and the MMC has submitted its report to the Secretary of State for Trade and Industry. We look forward to a conclusion to this inquiry early in the New Year.

We believe that we have demonstrated that the UK travel industry is highly competitive, provides the widest choice for the consumer at the best value for money anywhere in the world, and that any substantial change to the way in which the industry operates would be detrimental to the customer.

The Board As our business has grown it has been necessary to respond to this with appropriate changes to our management structure. Since the year end there have been two changes to the Board, Harry Coe, Deputy Chief Executive and Finance Director, becomes Group Managing Director and I am pleased to welcome to the Board Tim Byrne as Group Finance Director. Tim was previously Deputy Group Finance Director.

Staff The businesses that make up the Airtours Group offer a very special product and one that is now regarded by many as a necessity rather than a luxury. Whether it is the main family holiday or a short break, each holiday is carefully planned, eagerly anticipated and provides an escape from everyday life. For the delivery of such a special product a company needs special people and we have over 16,000 of them. Without their motivation, dedication and innovation our success would not be possible. Once again, on behalf of the Board, I would like to thank all members of staff for their efforts during the year.

Prospects In the UK, the market for winter 1997/98 holidays is presently showing strong growth over the previous year, although, it is too early to determine the extent of demand for next summer. From past experience we know that it is better to add capacity later in the season, once demand has been confirmed by a significant number of brochure bookings, rather than trying to estimate the level of customer demand at the time of a brochure launch. Consequently for next summer, we have fewer holidays on sale than we sold this year and will only increase our capacity if this is justified by demand.

In Scandinavia, winter bookings show a positive trend. The more important summer season brochures have only recently been launched. We will continue to develop our position in the Finnish market and our new business in Poland will commence sales of summer 1998 holidays in February.

In Canada, the number of bookings for the current winter season are most encouraging with growth over last year, whilst in California, Sun which we acquired in June, has taken a signifi number of advance bookings. At Sunquest Ho business is slowly improving with increasing b recognition in the market place.

The 1997/98 financial year will, for the first include the trading results of our joint venture timeshare business, Oasis Lakes at Lake Eve in Orlando, Florida. Sales are progressing satisfac and the first stage of construction will be completed in early 1998. In Gran Canaria, initi sales at our new resort in Baia Feliz have exce expectations, although these will not be recog in our accounts until completion of the development in 1998/99.

The 1997/98 results will also include a full ye trading from our associate, Costa, where forw bookings are encouraging.

This year we have achieved record profits a earnings, continued to increase the number o markets in which we operate and developed and innovative products to strengthen our co businesses. In accordance with our stated stra we will continue to exploit profitable opportu arising in all of our existing markets and seek further geographic diversification of our busin

David Crossland Chairman

Operating and financial review

During the year the Group achieved substantial growth in UK earnings, maintained growth in Scandinavia, developed new tour operating businesses in California, created a timeshare business in Orlando, Florida and made a major investment in Costa Crociere, the largest cruise operator in Europe.

turnover increased by
26.6% to £2,174.3m

Financial highlights	
Turnover £m	2,174.3
Profit before tax £m	120.3
Basic eps pence	63.82
Fully diluted eps pence	59.04
Dividend pence	20.00
Net assets £m	246.3
Operating cash flow £m	155.9

Group results In the year ended 30th September 1997 turnover rose by 26.6% to £2,174.3m. Of the £456.4m increase, £177.8m arose within our UK businesses, £175.0m in our Scandinavian businesses and the balance of £103.6m in North America.

Group profit before tax increased by £33.5m, or 38.6%, to £120.3m with the majority of the growth arising from our UK businesses.

Taxation After provision for all deferred tax liabilities, the Group's tax charge for the year represents 24.6% of profit before tax. It is expected that this rate will prevail for the foreseeable future.

Earnings per share The Group achieved record levels of both basic and fully diluted earnings per share. Basic earnings per share increased by 29.6% to 63.82p and fully diluted earnings per share increased by 29.4% to 59.04p.

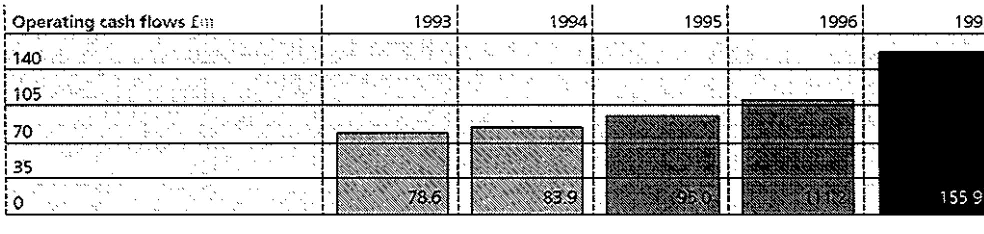
Dividend The Board is recommending a final dividend of 16p per ordinary share which, together with the interim dividend of 4p, gives a total dividend of 20p for the year. This represents an increase of 4p or 25% over the previous year. At this level the dividend is covered 3.19 times by earnings.

Cash balances and cash flow During the year the Group generated a positive operating cash flow of £155.9m, a £44.7m or 40.2% increase over the previous year.

During the year the Group had cash outflows of £57.1m that related to net capital expenditure and £26.3m in respect of dividends. The Group invested £29.1m in subsidiary and associated undertakings, including an amount of £23.2m which related to the purchase of 50% of the equity in Il Ponte, which in turn held 30.7% of Costa shares. In addition to this investment, a further £56.9m was advanced to Il Ponte by way of a loan to purchase additional shares in Costa. At the year end this amount was classified as a current debtor in the Group balance sheet as Il Ponte is likely to refinance this loan with third party financiers enabling early repayment of this debt.

As a result of this activity, cash and deposits at the year end amounted to £406.6m compared with £425.6m last year.

Capital investment and financial resources During the year the MS Sundream was purchased and then sold at cost and a lease arrangement entered into between Sun Cruises and the new owners. Other capital expenditure amounted to £57.5m, of which the principal items were £24.8m of aircraft and aircraft spares and £23.8m of other fixed assets which mainly comprise computer equipment and fixtures, fittings and equipment for our hotels and retail travel agencies.



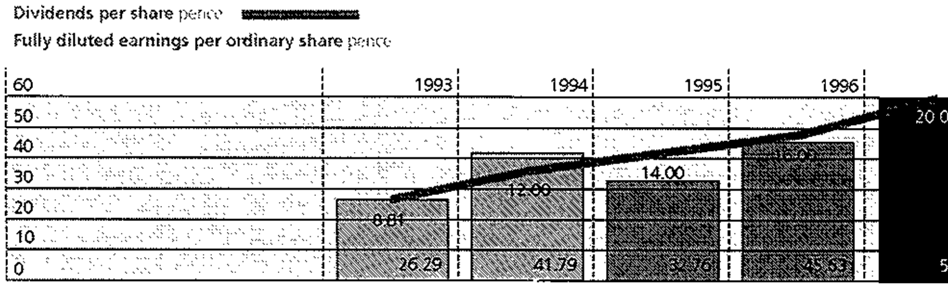
profits increased by
38.6%
to a record £120.3m

The Group's net assets at 30th September 1997 amounted to £246.3m. The strengthening of sterling during the year resulted in a reduction of £20.6m in the year end sterling value of the net assets of our overseas businesses.

Business development On 2nd December 1996, Sunquest Holidays commenced business in Southern California and carried its first passengers on 2nd April 1997. The Group further expanded it North American business on 2nd June 1997 with the acquisition of Suntrips in Northern California a a cost of £14.1m including goodwill of £13.4m.

In May 1997, we strengthened our position in the fast growing cruise market with the introduction of our third ship, the MS Sundream which has 1,100 lower berths. The MS Sundream operated in the Mediterranean this summer providing additional fly-cruise capacity to our tour operating divisions.

In June 1997, together with Carnival Corporation we acquired Costa, the largest cruise company in Europe and the fourth largest in the world. Each of the parties acquired a 50% shareholding in Il Ponte which at 30th September 1997 held 98.2% of the ordinary shares, 93.1% of the saving shares and 46.8% of the issued warrants of Costa Crociere Sp



41.0%

annual compound growth in earnings per share over last ten years

record earnings per share of **59.04p**

The Group has strengthened its position through

geographic diversity

48.1% of turnover generated overseas

Harry Coe

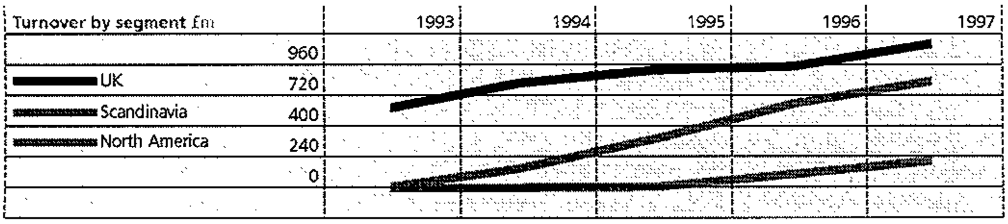
Balance sheet £m	1997
Tangible fixed assets	267.8
Investments	52.1
Net current assets	138.0
Long term liabilities	211.6
Net assets	246.3

A residual tender offer to acquire the remainin shares, at a 12.5% premium to the original pric will be launched on 15th December 1997. This additional consideration has been taken into account in calculating the amount of provision goodwill arising on the acquisition. Our share c fair value of the underlying assets of Costa is g than our total purchase consideration resulting addition to reserves of £14.5m.

We announced in November 1996 that we had entered into a joint venture to develop a timeshare resort in Orlando, Florida. Construct commenced in April this year and the first pha the development will be completed in early 1 In October, we announced the acquisition of a property at Baia Feliz in Gran Canaria. This is b developed into a 150 unit luxury timeshare res and will be opening late 1998 as the Airtours Club – Gran Canaria.

We have for some time been following the development of the tour operating markets in Eastern Europe. After undertaking considerabl research into each of the principal markets we decided earlier this year to establish a busines Poland. Holidays will be marketed under the brand with sales for summer 1998 commenci in February.

Operating and financial review



Scrip dividend Following enquiries from shareholders last year, the Company carried out a survey to establish whether there was a desire for a scrip dividend scheme. The response to that survey was that only 137 shareholders, representing just over 2.5% of the issued share capital indicated an interest. In view of this and the cost and administrative burden involved, the Board believes that it is not appropriate at this time to introduce such a scheme.

Proposed capitalisation issue of ordinary shares The success of the Group is reflected in the price of our ordinary shares which has increased by 406.1% from £2.44 to £12.35 (mid price as at 9th December 1997) over the six year period since the previous capitalisation issue. In view of the present share price, the Board is recommending that shareholders approve a capitalisation issue in which all shareholders will receive two additional ordinary shares for every ordinary share that they presently hold. Following the capitalisation issue, shareholders will hold a total of three ordinary shares for every existing ordinary share. Correspondingly, the market price of each ordinary share is expected to fall to approximately one third of the price prior to the date of the capitalisation issue, although the aggregate value of each shareholder's investment is not expected to be impacted adversely. The Board believes that this reduction in share price will increase the marketability of the shares and encourage further widening of the shareholder base.

Risk management The Group has established prudent operating and financial policies and procedures designed to maximise profits within a tightly defined risk management framework. Compliance with prescribed policies is monitored by Group management and was recently enhanced by the formation of a Risk Management Committee, consisting of senior executives reporting to the Board.

The Group manages exposures to fluctuations in customer demand by restricting to pre-defined levels, the amount of in-house flying and accommodation.

The Board has established prudent and conservative treasury policies which are reviewed on a regular basis to ensure continued relevance to our rapidly expanding business. A key element of treasury policy is the minimisation of the Group's exposure to changes to its cost structure as a result of movements in the value of foreign currencies, fuel prices and interest rates. To achieve this the Group uses a combination of forward contracts and fixed price agreements.

Year 2000 Each part of the Group is involved in the development and adaptation of its computer systems to ensure that they are able to operate beyond the year 2000. Enquiries are also being made of all our principal trading partners, whether suppliers or distributors, to ensure that they also have appropriate plans in place. The need to have an early solution to the Millennium issue is particularly important to tour operators who sell holidays up to 18 months in advance of the departure date. The costs associated with this exercise are charged to the profit and loss account as incurred.

Segmental analysis A breakdown of the Group's profit before tax by business unit is shown in the table below. The following sets out a more detailed analysis of the Group's results.

UK tour operations Turnover increased by 20.0% to £953.0m as a result of an increased number of passengers, higher priced brochure sales and an improved mix of full priced brochure sales to discounted sales. During the year profits increased by 58.6% to £66.3m. In the first half of the year we reduced losses by £8.3m and in the second half additional profit was derived principally from maintaining margins whilst increasing capacity to satisfy demand. The decision to add additional capacity for the summer 1997 season was only taken after a significant proportion of the capacity had been sold at brochure prices. The improved mix of full priced brochure to discounted sales also resulted in higher margins.

Airtours International, the Group's UK airline along with its sister Scandinavian airline, Premiair, was once again able to maintain load factors and levels of utilisation better than those of any other airline in the world.

UK retail Turnover for the year of £175.8m showed an increase of £18.7m or 11.9%. The improvement arose mainly as a result of an increased volume of bookings at higher prices and a greater contribution from Going Places' expanded foreign exchange business.

The profit before tax of £14.0m represents an increase of 60.9% over last year. This arose mainly as a result of the higher turnover within Going Places together with improved margins in our foreign exchange business and increased interest

a range of
mutually supportive businesses
operating in different markets

Prudent policies and procedures within a tightly defined risk management framework

Segmental profits £m	
UK Tour Operations	66.
UK Retail	14.
Scandinavian Leisure Group	39.
North American Leisure Group	(6.
Associates	7.
	120

continued overseas investment

earnings. In addition there was an increase in the profit from our teletext sales operation, Late Escapes.

Scandinavian Leisure Group (SLG) SLG reported record turnover of £834.5m for the year. The 26.5% increase arose as a result of a greater number of sales of higher priced brochure holidays and increased volumes. These improvements arose in part from the inclusion of a full year's trading from the Spies, Tjaereborg and Premiair businesses which were acquired in February 1996.

Record profits before tax of £39.2m were £4.1m higher than last year. Excellent trading conditions enabled SLG to make a profit in the traditionally loss making first half of the year. In the second half, the results were adversely affected by extraordinary flight delay costs and an extended period of record high temperatures in Scandinavia which discouraged overseas travel.

In local currency SLG made profits of 439m Swedish Kroner (sek) compared to 370msek last year, an increase of 18.6%. In accordance with Group policy, this profit stream was hedged at the beginning of the year at a rate of 11.19sek to the pound, which compares to a rate of 10.54sek to the pound last year. Had the Group not hedged, the profits would have been translated at the average rate for the year of 12.10sek to the pound.

North American Leisure Group (NALG) Turnover in North America increased by 96.5% to £211.0m as a result of the inclusion of a full year's trading from Alba Tours International, acquired in August 1996, and our new Californian businesses Sunquest Holidays and Suntrips.

Mainly as a result of the start up costs and initial trading losses at Sunquest Holidays, NALG reported a loss before tax for the year of £6.6m. Suntrips made an operating loss of £0.3m which was in line with our expectations at the time of acquisition in June.

In Canada, although trading conditions remained difficult throughout most of the year, there has recently been some improvement. This improvement has been achieved by the introduction of a wider choice of product in the traditional summer low season, such as our Mediterranean cruising programme with Sun Cruises.

Associated companies Profit before tax of £7.4m compares to a loss of £0.6m last year.

This result includes £5.1m from Airtours' share of Costa's high season profits which is after deducting £7.0m, representing our share of the costs associated with the reorganisation of the company including the discontinuation of certain of Costa's operations. The balance of £2.3m arises from the Group's share of the profit of Tenerife Sol, which shows an increase of £0.4m over last year arising from higher occupancy levels and increased room rates.

The comparative figures for 1995/96 include a loss of £2.5m in respect of Premiair which became a wholly owned subsidiary in February 1996 following the acquisition of Spies.

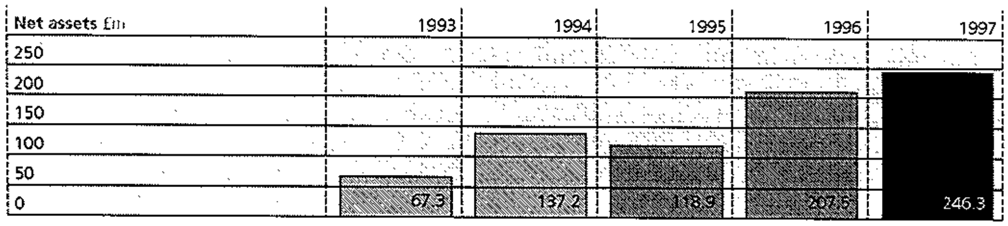
Summary These results demonstrate another strong operating and financial performance which produced record profits and earnings per share. The rise in earnings was backed by strong operating cash flows which enabled us to invest in new businesses and further enhance our geographic diversification. The resultant increase in net assets form a strong base for the Group's future growth.

Harry Coe Managing Director

Ving Poland
commences i

Associates results:	1997 £m
Costa	5.1
Tenerife Sol	2.3
Premiair	–
	7.4

record dividend of 20.00 pence



18.7% growth in net assets since 199

The net assets of the Group provide a strong foundation for future growth

Airtours profile

The Airtours Group is managed on a decentralised basis and is organised into six operating divisions.

UK Leisure Group

1980 Tour Operations commenced
1989 EuroSites formed
1992 Pickfords Travel acquired
1993 Aspro and Hogg Robinson acquired
1993 Going Places launched
1995 Tradewinds established
1997 UK Leisure Group formed

Photo left to right:
Tony Bennett Chairman – Retail
Lars Thuesen Chairman – UK Leisure Group
Peter Rothwell Managing Director – Tour Operations

Brands

Airtours
Aspro
Tradewinds
EuroSites
Going Places
Late Escapes

Scandinavian Leisure Group

1956 Ving formed
1989 Saga acquired
1991 Always acquired
1994 Acquired by Airtours
1996 Spies acquired
1997 Formation of Ving Poland

Photo left to right:
Christer Sandahl President and Chief Executive Officer
Bjarne Hornbek Managing Director Spies
Per G Braathen Managing Director Saga, Always and Tjaereborg
Olle Tönnervik Managing Director Ving Scandinavia
Sam Weihagen Chief Executive Officer, Commercial Services

Brands

Ving
Saga
Always
Tjaereborg
Spies

North American Leisure Group

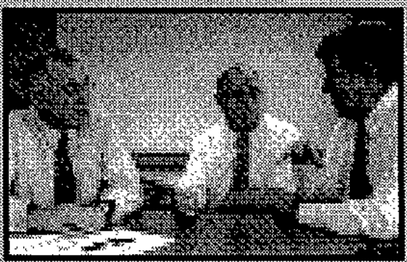
1972 Sunquest Vacations formed
1995 Silverwing acquired
1995 Acquired by Airtours
1996 Alba acquired
1996 Sunquest Holidays established
1997 Suntrips acquired

Photo left to right:
Gianni Bragagnolo President, Sunquest Vacations
John Trickett President and Chief Executive Officer, Sunquest Holidays
Leo Desrochers President North American Leisure Group

Brands

Alba
Sunquest Vacat
Sunquest West
Sunquest Holid
Suntrips

Airtours plc	Scandinavia	United Kingdom	North America
Distribution	Spies Shops Tjæreborg Shops Ving Shops	Going Places Late Escapes	
Tour Operations	Ving Spies Always Saga Tjæreborg	Airtours Aspro Tradewinds EuroSites	Alba Sunquest Vacations Sunquest West Sunquest Holidays Suntrips
Aviation	Premiair	Airtours International	
Accommodation	Hotels Timeshare Sun Cruises Costa	Hotels Timeshare Sun Cruises Costa	Timeshare Sun Cruises Costa



Aviation Division

1991 Airtours International formed
1994 Conair and Scanair merged as Premiair
1994 50% of Premiair acquired with Spies
1996 50% of Premiair acquired with Spies
1996 Creation of Aviation Division

Pictured to right:
Mike Lee Chairman
Gene Maghlan Director and General Manager, Operations and Engineering
Tom Clausen Managing Director Premiair

Brands
Airtours In
Premiair

Cruise and Hotels Division

1970 First Sunwing Hotel
1994 Airtours acquire Sunwing Hotels
1994 First two ships acquired
1996 Spies Hotels acquired
1996 Third ship acquired
1996 Creation of Cruise and Hotels Division

Pictured from left:
John Drysdale Managing Director Sun Cruises
Hugh Collinson Chairman
David Wright Finance Director
Claes Bernhard Managing Director Sunwing Hotels

Brands
Sun Cruise
Sunwing H

Vacation Ownership Division

1996 Oasis Lakes joint venture in Florida
1997 Bahia Feliz development acquired in Gran Canaria

Pictured left to right:
John MacDonald Sales and Marketing Director
Lorenzo Rastelli Managing Director
Paul Smythe Finance Director

Brands
Oasis Lak
Airtours Be

UK Leisure Group: tour operations

UKLG tour operations sold 2,900,000 holidays during last year

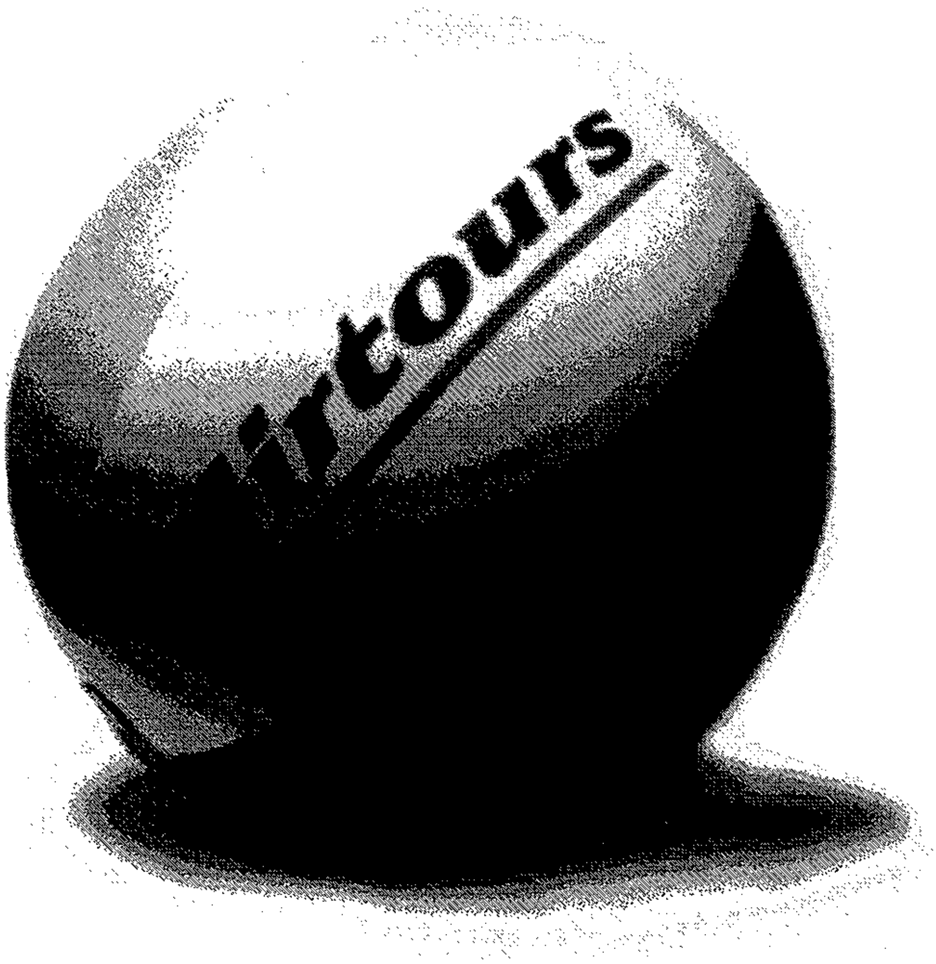
UK Tour Operations manage four main brands – the specialist long haul operator Tradewinds, mainstream tour operators Airtours Holidays and Aspro and the self-drive camping holiday specialist EuroSites. During the year all businesses have seen improvements in trade with the largest volume brand, Airtours Holidays, having the most significant increase in profits.

The UK tour operating market for winter 1996/97 grew by 5.8% and summer 1997 grew by 7.1%. We maintained market share during winter and made gains in the summer by adding capacity following strong demand for our products. Most of this additional capacity was used to satisfy increased demand for short break holidays. Other product groups which demonstrated strong growth were all-inclusive and long haul holidays.

As part of our constant drive to optimise operational performance we enhanced our bedstock utilisation system which contributed substantially to the profit improvement during the year. We have also concentrated upon improving the overseas services provided to our customers which has resulted in higher levels of customer satisfaction and increased profit in resort.

Looking to the future, bookings for winter 1997/98 are presently 11.0% higher than last year. With a 15.0% increase in brochure bookings for summer 1998, coupled with lower capacity than we sold for summer 1997, we have less capacity remaining to sell than at this time last year.

Lars Thuesen **Peter Rothwell**



UK Leisure Group: retail

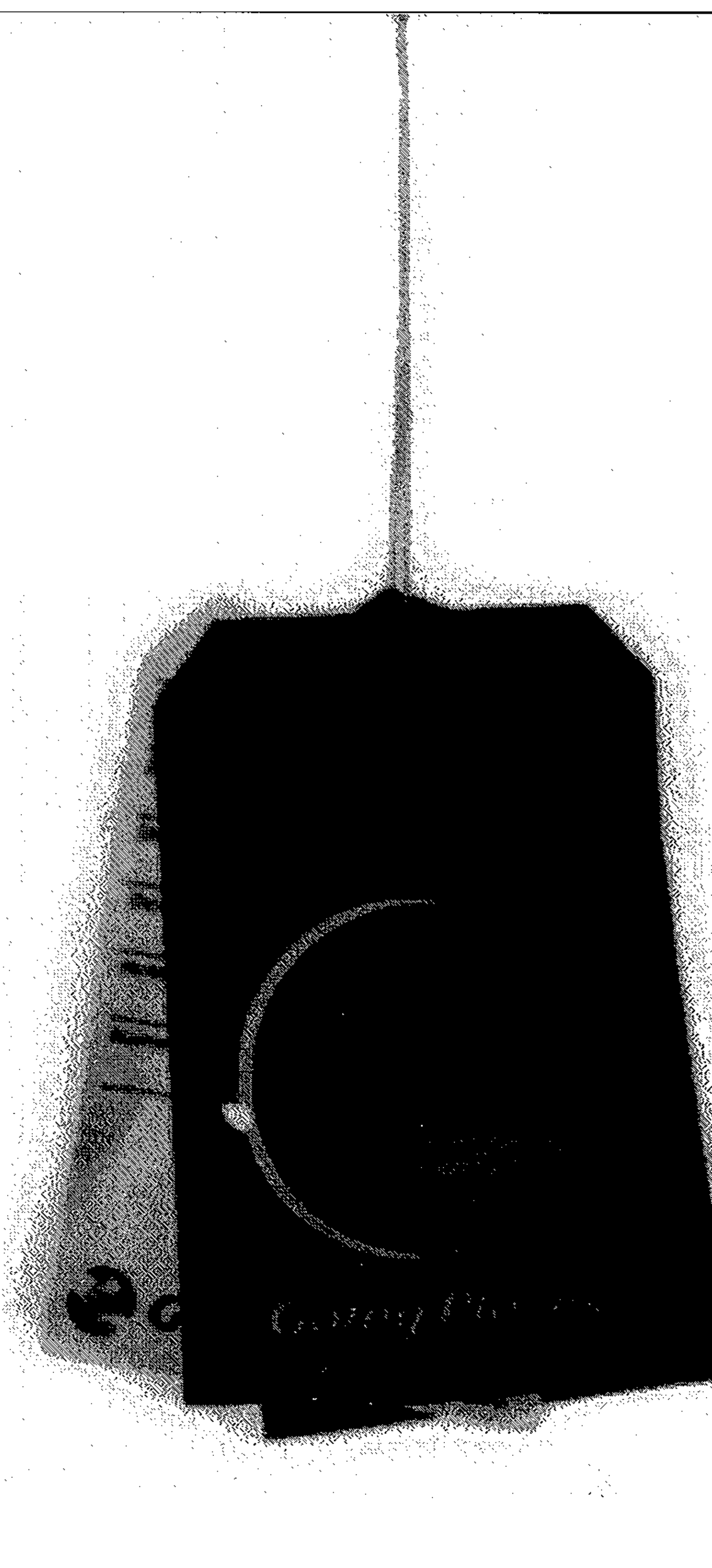
UK Retail comprises the retail travel agency, Going Places, with its network of 702 shops and a direct sales operation, the most significant part of which is the teletext sales business, Late Escapes. The year's record profit arose mainly from increased volumes of higher priced holidays and additional profits from our expanded foreign exchange operations.

Over the last few years we have extended the range of air-inclusive products offered to our customers with an increased choice of cruise, ski, short breaks and long haul holidays. The development of our Matchmaker concept has further improved the level of service provided to our customers, ensuring they receive the best possible product to match their requirements. We have also widened our choice of non air-inclusive products, which now account for 30% of our business. In this area, the most significant growth has arisen from the introduction of our foreign exchange facilities.

As a retail organisation we recognise the value of high quality staff in meeting customer needs and during the year we introduced a new performance related pay scheme to attract, reward and retain the best possible sales staff. In addition, Going Places has recently been accredited as an Investor In People for its high standard of training and staff development.

We continue to improve the quality of our retail network, teletext operations and IT systems and to research new methods of distribution. This will enable us to maintain our competitive position serving some four million customers and providing a valuable support to the Group's tour operating activities.

Lars Thuesen **Tony Bennett**



4,000,000 people used Going Places' services last year

Scandinavian Leisure Group

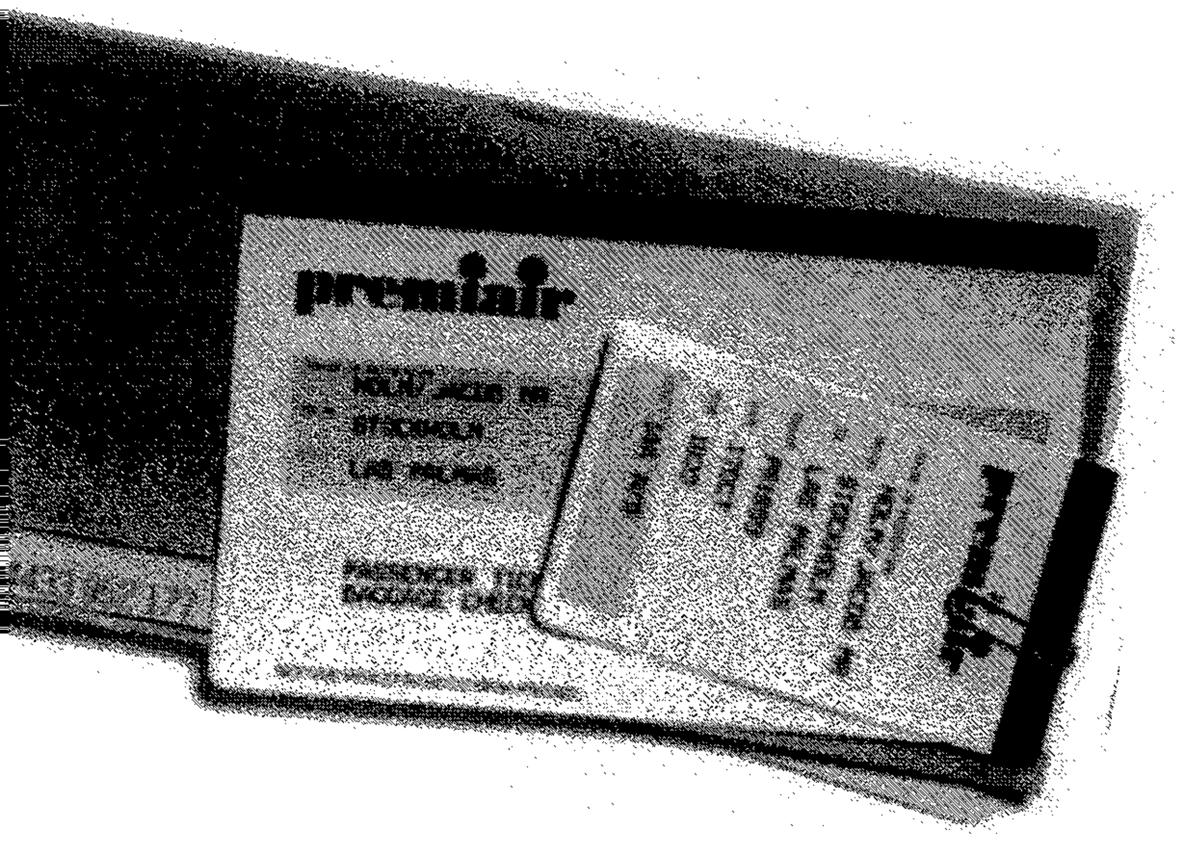
SLG has a number of brands deployed across different markets. We operate in Denmark, Norway, Sweden and Finland, and with the exception of Finland, have the largest market share in each country. In our main markets, profits from both Ving and Spies, our direct sales brands, increased during the year as a result of higher volumes and margins. Whilst 80% of our holidays are sold directly to our customers the balance are sold via our travel agency brands of Saga, Always and Tjaereborg which also saw significant profit improvements during the year. Our businesses in Finland do not command the same level of market share as those in the other Nordic countries and losses were incurred as we developed our presence in this market.

A large part of our success can be attributed to the provision of unique products such as Ving Centres, Sunwing Hotels and Garden Hotels which generate high levels of customer satisfaction. This encourages repeat brochure bookings which command premium prices in the marketplace. Not all of our product is differentiated and where it is not we ensure that it has the most attractive prices in the market. We believe that this philosophy has given us higher margins per passenger than any other tour operator in Europe.

We have applied this philosophy in Scandinavia to the Spies and Tjaereborg brands acquired in 1996 and as a consequence have seen dramatic increases in the number of brochure bookings, and a corresponding improvement in the mix of full priced brochure to discounted sales.

Whilst October 1997 sales were adversely affected by the continuation of the prolonged period of exceptionally good weather in Scandinavia, bookings for winter are strong and currently show an increase of 11.8% over last year. The more important summer 1998 season has only recently been launched. This coming year we will continue to develop our Finnish tour operations and our new business Ving Poland, will commence sales of holidays for summer 1998.

Christer Sandahl



1,771,000 passengers travelled with SLG last year

North American Leisure Group

629,000 booked a holiday last year with North American Leisure Group

NALG operates in a number of different markets in both Canada and the USA. In Eastern Canada NALG carries approximately 350,000 passengers and operates two brands, Alba Tours and Sunquest Vacations. In Western Canada NALG has a relatively small operation, Sunquest West, carrying some 100,000 passengers a year. Although the company faced difficult trading conditions during the year as a consequence of excess capacity in the market significant progress has been made in the development of a wider range of differentiated products which is now reflected in current booking levels.

Our operations in the USA comprise Sunquest Holidays in Southern California and the recently acquired Suntrips in Northern California. Sunquest Holidays, a new brand in the Southern Californian market, issued its first brochures in December 1996 and commenced tour operations in April 1997. It incurred losses in this first period of operation as a result of both start up costs and initial trading losses. Suntrips made a loss of £0.3m during the period in line with our expectations at the time of acquisition.

Looking forward, prospects in Canada are encouraging with bookings for winter 1997/98 12.4% ahead of the same time last year. In the USA, bookings for Suntrips are satisfactory and there is growing recognition of the Sunquest Holidays brand.

Leo Desrochers

Aviation Division

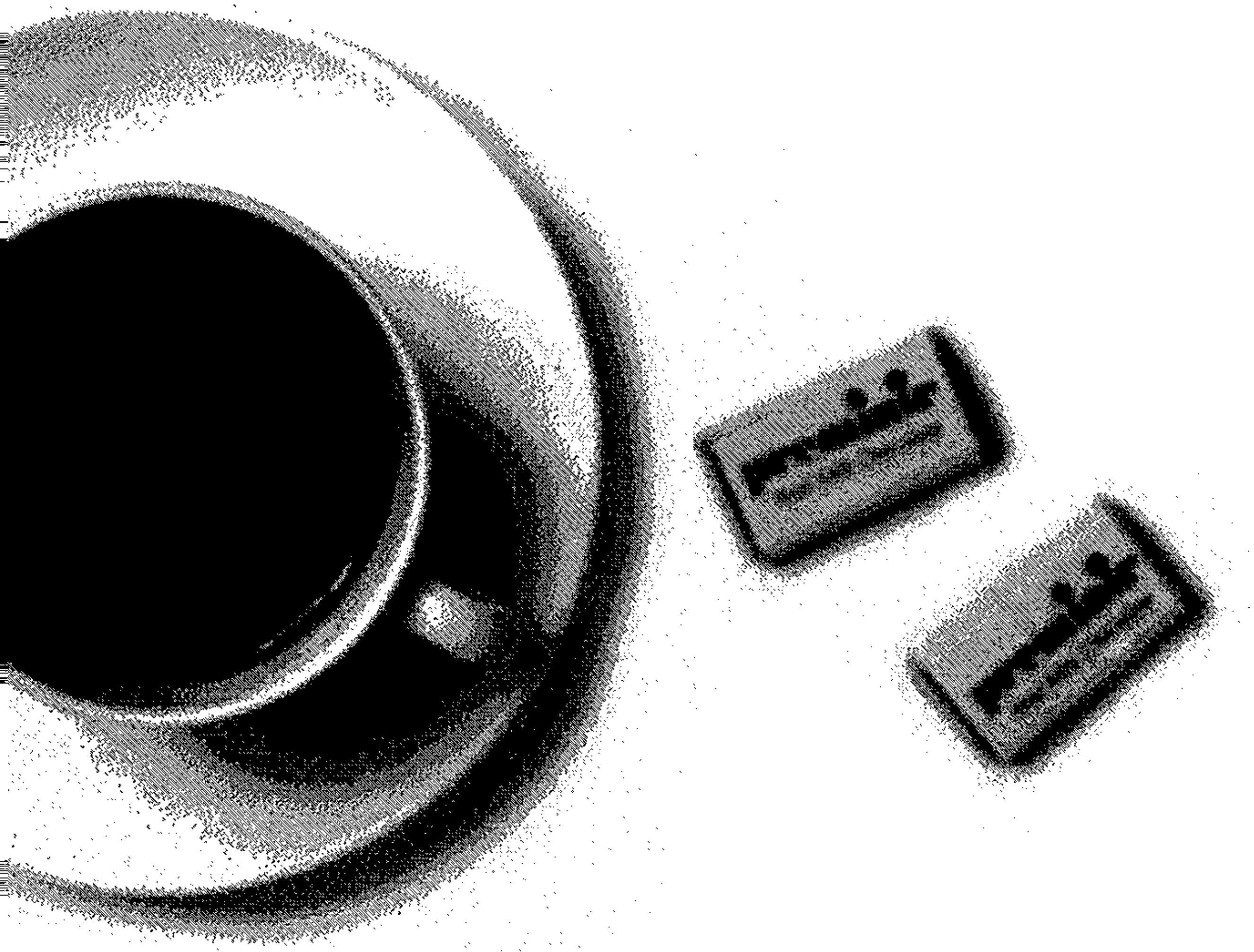
The Aviation Division is responsible for the operation of the Group's in-house airlines, providing flying capacity exclusively to the UK Leisure Group through Airtours International and to SLG through Premiair, Scandinavia's largest charter airline. Whilst the tour operators specify service levels and determine the utilisation of aircraft, the Aviation Division is responsible for overall efficiency and operational safety.

Early in 1997, Airtours International took delivery of a new Boeing 767-300 and a new Boeing 757, and in March, Premiair took delivery of a DC10-30 which operates SLG's new long haul programme, providing direct holiday flights from Scandinavia to New York, Florida and the Caribbean. The fleet now comprises 16 A320s, 3 A300s, 5 DC10s, 7 B757s and 3 B767s.

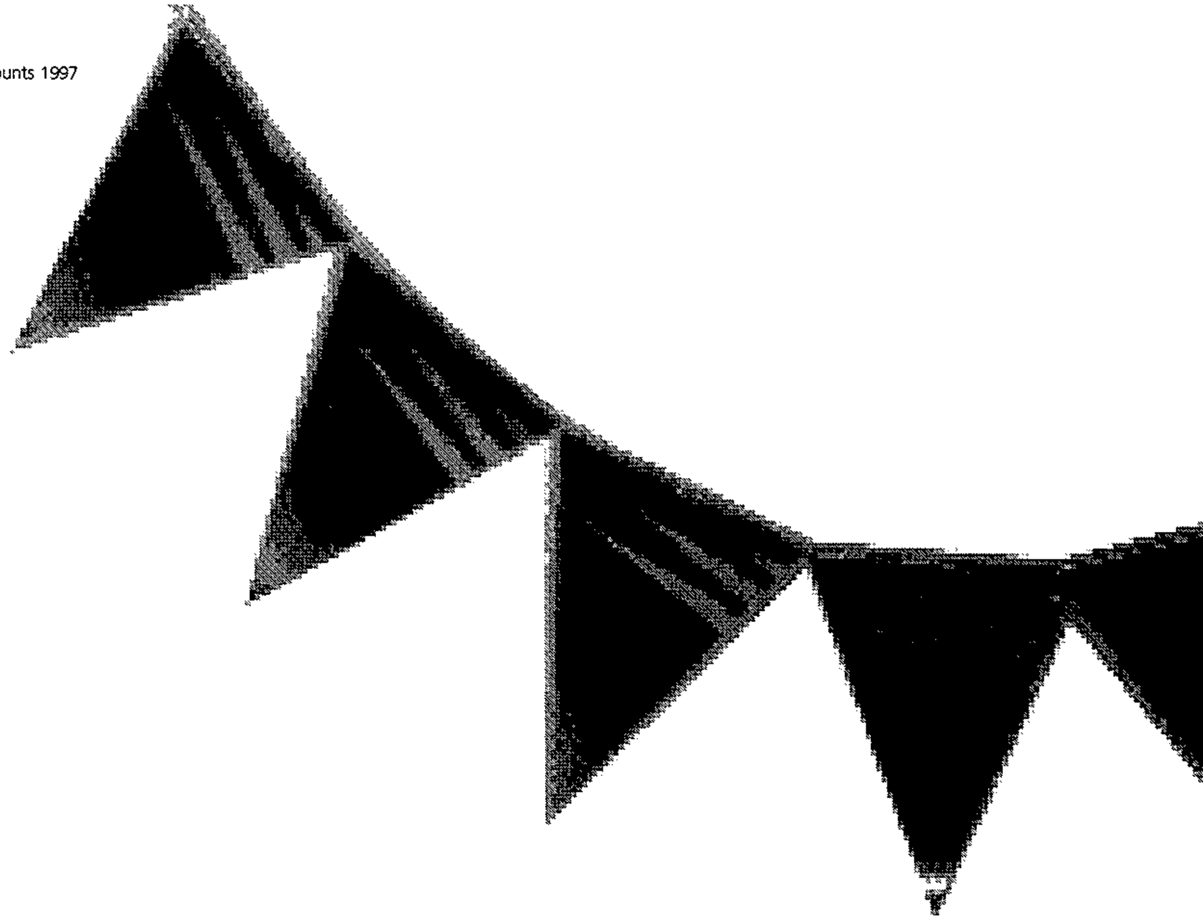
In the UK, Airtours International won two major awards during the year, the Mercury Award for the Innovative Product of the Year and the World Airline Award for In-flight Entertainment. The Mercury Award was won for the introduction of our pre-bookable service which offers our customers the opportunity to pre-book their seats, in-flight meals and duty free goods. The awards were won against strong competition from both charter and scheduled airlines.

Last summer Airtours International had a dedicated stand-by aircraft which was used to minimise disruptions to our customer's holidays. Next summer Airtours International and Premiair will each have a dedicated stand-by aircraft.

Mike Lee



During the year 3,926,000 round trip passengers were carried by the Group's aircraft



833,000 passenger cruise days were provided by Sun Cruise ships during the year

Cruise and Hotels Division: cruise

The latest forecasts from the Passenger Shipping Association show that in 1998 the number of people in the UK taking a cruise is expected to total 775,000, an increase of 150% over the previous five years. The majority of this growth has been created by UK tour operators, led by Airtours who entered the market with their own fly-cruise product in 1995.

Last winter the MS Carousel sailed for 21 weeks in the Caribbean with the majority of its capacity sold by our North American tour operating businesses, and the balance being sold to our UK customers. The MS Seawing, in addition to cruising the Caribbean, sailed in the Eastern Mediterranean for our UK and Scandinavian tour operators.

To meet demand, the fleet was increased in May 1997 to three ships with the introduction of the MS Sundream, which operated alongside the MS Carousel and MS Seawing sailing from Palma, Majorca on Mediterranean cruises. For the first time this summer, all of the Group's tour operators sold the fly-cruise product with passengers from North America joining the MS Sundream in Rome and Barcelona. Once again the cruise product was in great demand with all three ships achieving very high occupancies and providing exceptional levels of customer satisfaction. Since the introduction of our fly-cruise product, a great deal of effort has been invested in identifying and meeting the on-board requirements of our customers. We have significantly improved our on-board retail operations, which has resulted in a doubling of margins.

In winter 1997/98, the MS Carousel and MS Sundream are cruising in the Caribbean and are being sold by our North American and UK tour operators. For the first time SLG is also including the fly-cruise product as part of their first winter season of long haul holidays.

Following the Group's investment in Costa, together with Carnival Corporation, we have undertaken a comprehensive programme of cost analysis and comparison. This has already led to reduced costs in a number of areas and further opportunities will be exploited next year.

Hugh Collinson

John Drysdale

Cruise and Hotels Division: hotels

The hotels division provided 4,070,000 bed nights to the Group's tour operating passengers

Retouch word soap to this size

The Hotels Division provides unique and differentiated products for the Group's tour operating businesses. These are invariably amongst the tour operators' best selling products, generatin better than average margins and delivering higher levels of customer satisfaction.

Our current portfolio offers a wide range of accommodation from all-inclusive hotels to self catering apartments.

This winter we are refurbishing certain propertie and a major rebranding exercise is being carried out on the 10 Sunwing properties which are sold t the Group's passengers in Scandinavia and the UK. The aim of this is to capitalise upon the strength o our Sunwing brand, which is associated with high quality accommodation and commands premium prices and customer loyalty.

We will rename the whole portfolio as Sunwing but differentiate between Sunwing Resorts, Sunwing Hotels and Sunwing Villages. Whilst there will be a single brand it will continue to offer different categories of properties to match differin customer needs.

Looking to the future we will seek to expand our portfolio of properties where profitable opportunities present themselves, but we shall only do so within predefined limits of in-house accommodation in any one resort and in areas of proven long term demand.

Hugh Collinson

Claes Bernhard

Vacation Ownership Division

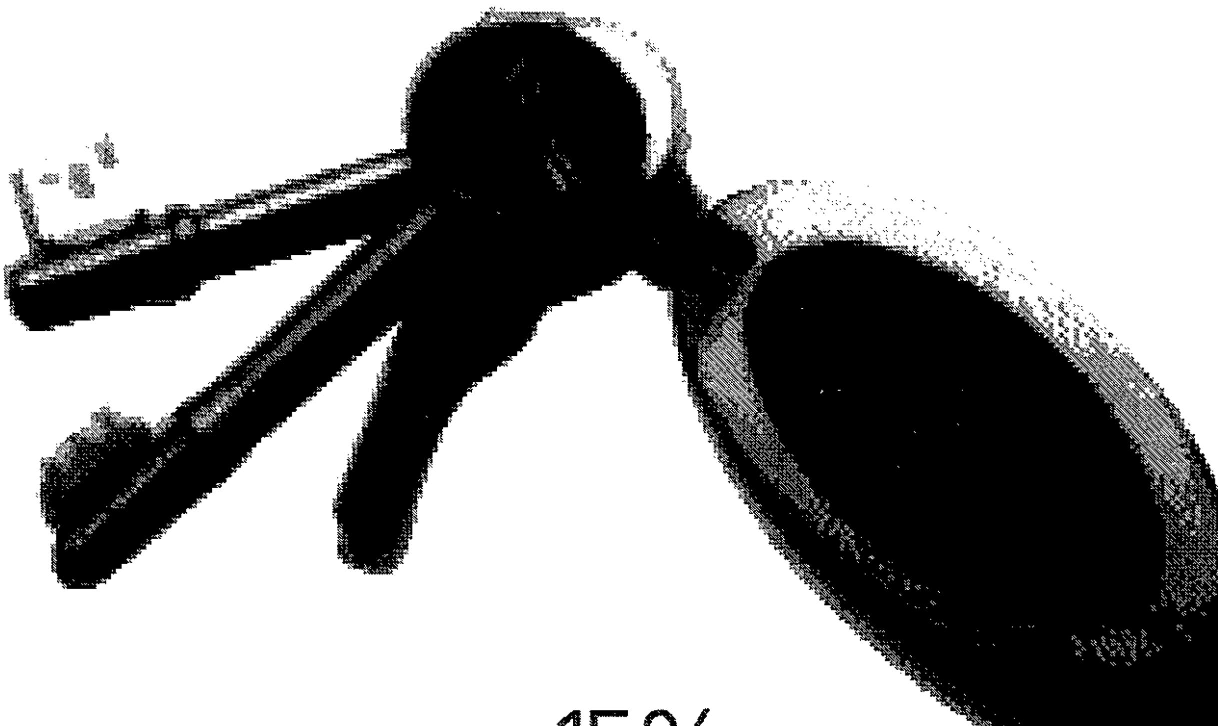
Timeshare or 'Vacation Ownership' is one of the most dynamic sectors of the leisure industry with annual compound growth rates in excess of 15% over recent years. This rate of growth has been driven by large international leisure corporations continuing to invest in the development of luxury resorts which offer accommodation of the highest quality. Approximately 8 million people now take holidays in over 4,000 timeshare resorts worldwide. Having decided that we wished to participate in this market, we focused our research on holiday destinations which have proven long term popularity with our customers.

In November 1996, we announced our move into Vacation Ownership via a 50:50 joint venture which acquired a 54 acre site adjoining Lake Eve on International Drive in Orlando, Florida. This resort is being developed as Oasis Lakes. Phase 1 of the building programme involves the construction of two complexes (each containing 35 apartments), a club house, swimming pool and various other amenities. Construction of Phase 1 should be completed in early 1998. Sales of individually owned units, or intervals, comme earlier this year and revenues will be recognis on completion of Phase 1.

In October 1997, we made our second investment in Vacation Ownership with the acquisition of a beach front development in Ba Feliz, some 5 kms from Playa del Ingles, Gran Canaria. The resort, to be called the Airtours B Club-Gran Canaria, will consist of 150 luxury apartments which will be available for occupat by late 1998.

With an excellent product, strong marketing and the benefits of our customer base, Airtou well placed to take advantage of the growth a profitability of this exciting market.

Lorenzo Rastelli



Vacation ownership has grown by 15%
per annum over recent years

Associated companies

Tenerife Sol Tenerife Sol is a joint venture formed in 1985 between SLG and the Spanish hotel group Melia Sol S.A. The joint venture operates three hotels, located in Tenerife, Lanzarote and Fuerteventura. Melia Sol manages the hotels on a day to day basis with strategic decisions made by a board consisting of Airtours and Melia Sol representatives. Tenerife Sol achieved profits for the year of £4.6m. Airtours share of this was £2.3m, with the increase of £0.4m over last year being achieved from higher occupancy and increased room rates.

Costa In June, Airtours and Carnival Corporation jointly acquired Costa. Since the 1960's Costa has been one of the largest cruise companies in the world and a recent investment programme in new ships has further strengthened the company's leading position, enabling it to successfully compete in one of Europe's major growth markets.

Four new cruise ships joined the Costa fleet in the early 1990's and the new flag-ship, Costa Victoria, with 1,930 lower berths, was delivered in mid 1996. The modern fleet has given the compan leadership of the Mediterranean cruise market with a 27% market share of the 5.6 million passenger days. The fleet also operates in Northern Europe in the summer and in the Caribbean and South America in the winter.

Of the seven ships in the Costa fleet, five are owned by the company, one is chartered and one is leased. Costa's most important market is Italy, representing 42% of the total 1996 ticket revenue, followed by France with 21% and the USA with 13%

The strategic development of Costa is determine by its Board which consists of three Airtours representatives, three Carnival representatives and the recently appointed Chief Executive, Pier Luigi Foschi. Senior executives from Costa, Carnival and Airtours continue to work closely together in order to ensure that the maximum benefits are achieved from the synergies of the three cruise companies, which between them operate 35 ships.

3,220,000 passenger days per annum are provided by Costa's seven ships

Corporate advisers

Principal bankers

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PO Box 283
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Manchester M60 2AU

National Westminster Bank plc
PO Box 12259
7th Floor
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London EC2R 8PB

The Royal Bank of Scotland plc
Corporate Banking
PO Box 356
38 Mosley Street
Manchester M60 2BE

Société Générale
Barnett House
53 Fountain Street
Manchester M60 2AD

Financial advisers

Deutsche Morgan Grenfell
23 Great Winchester Street
London EC2P 2AX

The British Linen Bank Limited
PO Box 49
4 Melville Street
Edinburgh EH3 7NS

Financial communications

Brunswick Group
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London WC2A 3ED

Stockbrokers

Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Registrars and transfer office

Bank of Scotland
Registrar Services
Apex House
9 Haddington Place
Edinburgh EH7 4AL

Auditors

Arthur Andersen
Chartered Accountants and
Registered Auditors
Bank House
9 Charlotte Street
Manchester M1 4EU

Solicitors

Addleshaw Booth & Co
100 Barbirolli Square
Manchester M2 3AB

Wilde Sapte
1 Fleet Place
London EC4M 7WS

Auditors' reports

to the members of Airtours plc

We have audited the financial statements on pages 39 to 58 which have been prepared under the historical cost convention and accounting policies set out on page 39. We have also examined the disclosures relating to the emoluments, share options, long term incentive scheme interests and pension entitlements of the Directors which form part of the report to shareholders by the Remuneration Committee on pages 33 to 36.

Respective responsibilities of Directors and Auditors As described on page 32 the Directors are responsible for the preparat of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

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

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group 30th September 1997 and of the profit and cash flows of the Group 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
10th December 1997

to Airtours plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statement on page 32 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not requi us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion With respect to the Directors' statements on internal financial control and going concern on page 32, in our opinion t Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion th Directors' statement on page 32 appropriately reflects the Company's compliance with the other aspects of the Code specified our review by Listing Rule 12.43(j).

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
Bank House
9 Charlotte Street
Manchester M1 4EU
10th December 1997

Corporate governance

The Company has complied throughout the year with the Code of Best Practice (the "Code") published by the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee).

Internal financial control The Board of Directors has overall responsibility for ensuring that the Group maintains a system of interna 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 the 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 financial statements include:

- comprehensive planning and budgeting systems operating within each division with an annual budget approved by the Board.
- monthly consideration by the Board of actual results compared to budgets, forecasts and prior year comparatives.
- 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.
- a review of internal audit reports by the Audit Committee.

Going concern After making appropriate enquiries, the Directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities Company law requires the Directors to prepare financial statements 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 and cash flows of the Group for that period. In preparing those financial statements, 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 financial statements; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. 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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention an detection of fraud and other irregularities.

Remuneration committee report

The members of the Committee are the Deputy Chairman Sir Michael Bishop and Mr E F Sanderson (both non-executive Directo and, because of his knowledge of the business and the tour operating industry, the Chairman of Airtours plc, Mr D Crossland.

The Committee, under the Chairmanship of Mr Crossland, is responsible for the determination of the remuneration policy as applied to Airtours' executive Directors and senior executives. 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 Group performance consistent with the best interests of the Group, its shareholders and employees. The Committee takes account of t remuneration packages provided by companies within the 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 ta set by the Committee and adopted by the Board.

The main elements of 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% base salary effective at 1st April in the relevant financial year. For the year ended 30th September 1997 full provision for these bonuses has been made as profit targets have been achieved. Bonuses are normally paid in the December following the end of relevant financial year in which they are earned.

b) Long term incentive plan

Following the expiry of the Airtours plc Share Option Scheme (1986) a new share price related long term incentive plan was ado by the Board during the previous financial year. 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. Benefits earned will be paid over the period between the fourth and sixth anniversaries of the date of the award. The scheme is designed to encourage seni 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 calc by multiplying such number of ordinary shares by the share price quoted on the London Stock Exchange on a date as determine the participant between the fourth and sixth anniversaries 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. Payn which can be taken in the form of the Company's shares, are spread over the period from exercise to the sixth anniversary of th award date.

The entitlement to the bonus is subject to the Company achieving earnings per share (eps) growth at least equal to the grow the retail price index (RPI) plus 3% per annum over the four year period from the date of the award. In addition, the level of pa 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 time the awards were made. Where the Company's eps growth falls within the top 100, 125 or 150 of the FTSE mid 250 the proportion of the payment entitlement is 100%, 75%, 50% and 25% respectively of maximum calculated as set out above. No payment is made if the Company does not achieve the minimum ranking of 150th w the FTSE mid 250 shares.

No notional awards of ordinary shares, or payments, have been made to Directors in the year ended 30th September 1997. At 30th September 1997 and at 30th September 1996 the following notional awards of ordinary shares remained in existence:

A H Coe	150,000
H H Collinson	100,000
M C Lee	100,000
B C Sandahl	100,000

At 30th September 1997 an amount of £983,000 has been accrued for benefits that may fall due to Directors under the lon incentive plan (1996:nil). The earliest date upon which benefits under the plan can be taken is 24th September 2000.

c) R O Davies

Under the terms of his then existing service contract Mr R O Davies became entitled during the year to a bonus from a shadow option scheme. The amount payable under the scheme was restricted to the lower of £1,000,000 or an amount calculated by multiplying 350,000 by the excess over 391p of the mid-market price of an ordinary share (as derived from the Daily Official Lis the London Stock Exchange) on a date falling in the period 1st January 1997 to 31st December 1998 and notified to the Comp by Mr Davies at any time prior to 31st December 1998. An amount of £1,000,000, of which £740,250 had been accrued at 30th September 1996, in respect of this bonus was paid to Mr Davies on 27th January 1997.

Remuneration committee report

iii) Pension rights

Mr A H Coe is a member of the Company's defined contribution scheme into which the Company contributes 27.5% of his base salary.

Messrs H H Collinson and M C Lee have their own non-contributory executive pension schemes. With regard to Mr Collinson, subject to Inland Revenue limits, the Company pays 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 the date of his retirement or a contribution equal to 50% of his base salary. In the year ended 30th September 1997 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 a contribution of 14% of his base salary is paid into his executive pension scheme. In addition a further 11% is payable annually in arrears dependent on the attainment by the Group of its profit target and full provision has been made in respect of the year ended 30th September 1997.

Mr B C Sandahl's contract of service with Airtours plc provides for the payment of an amount equal to 25% of his base salary into a pension scheme for his benefit. In addition a further 15% of his salary is paid into a pension scheme under the terms of his service contract with the Scandinavian Leisure Group.

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

Until his resignation on 11th December 1996 Mr R G Marcall was also a member of the Company's defined contribution scheme into which the Company contributed 25% of his base salary.

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 30th June 1986, amended by shareholders on 25th January 1990 and further amended by resolution of the Board on 10th October 1994. The Scheme was set up for a period of ten years and in accordance with the rules of the Scheme the last date on which options could be granted was 29th June 1996.

Options granted under the Scheme are normally exercisable, in the case of Class 1 options, between three years and ten years fror 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 earnings per share 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 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 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 scheme

The Company operates a savings-related share option scheme which was adopted by shareholders on 21st January 1993. The Scheme provides a long term savings and investment opportunity for employees. The Scheme is open to all UK employees who have been with the Group for at least one year. Directors participate on equal terms with other employees.

The 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.

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

Mr B C Sandahl's service contract 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 and 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 nc longer be provided).

The service contracts of the other executive Directors are terminable by the Company giving not less than 24 months' notice. Give the need to retain and motivate Directors in an industry which requires specialist skills and, in view of the Directors' collective contribution to the growth and success of the Company, the Remuneration Committee believes it is inappropriate to seek to reduce the notice periods provided for in such contracts.

Non-executive directors A committee comprising executive Directors determines the remuneration of the non-executive Directors, which complies with the spirit of the best practice provisions. Save for Sir Michael Bishop, Mr R O Davies and Mr E F Sanderson, who have letters of appointment which provide that their appointment is terminable by the Company giving not less than six month notice, none of the other non-executive Directors has a service contract or letter of appointment. Non-executive Directors do not receive bonus payments or share options and they are not members of the Company's pension scheme.

Greenbury code of best practice Save for the exceptions noted above, the Company has complied throughout the year with Section A (Remuneration Committees) of the Best Practice Provisions on Directors' remuneration annexed to the Listing Rules. In determining the remuneration packages for Directors, the Remuneration Committee has given full consideration to Section B of the Best Practice Provisions.

Remuneration in respect of Directors was as follows:

	Annual base salary September 1997 £000	Salary & fees £000	Bonus £000	Benefits £000	Pension contributions £000	Total 1997 £000
Executive						
D Crossland, Chairman	**390**	365	244	57	–	**666**
A H Coe	**315**	273	197	17	75	**562**
H H Collinson	**294**	290	184	13	147	**634**
M C Lee	**240**	210	150	12	53	**425**
R G Marcall (resigned 11th December 1996)	–	45	–	4	11	**60**
B C Sandahl	**223**	200	140	7	81	**428**
		1,383	915	110	367	**2,775**
Non-executive						
M M Arison	–	–	–	–	–	–
Sir Michael Bishop	**50**	51	–	–	–	**51**
R O Davies	**33**	189	1,000	1	–	**1,190**
Sir Tom Farmer	**17**	17	–	–	–	**17**
H S Frank	–	–	–	–	–	–
E F Sanderson	**17**	17	–	–	–	**17**
		274	1,000	1	–	**1,275**
Total emoluments		1,657	1,915	111	367	**4,050**

Mr R O Davies relinquished his executive duties on 30th April 1997. Included in the above table is an amount of £1,000,000 wh was paid to Mr Davies on 27th January 1997 under the terms of a shadow share option scheme and his then existing service contract. Of this sum provision had been made for £740,250 in the previous year.

Total Directors' remuneration for 1996 amounted to £3,019,000 of which £325,000 related to former Directors' of the Comp not listed in the above table.

Not included in the above table is an amount of £59,500 being the total value of cash and other assets paid to, or for the be of, Mr R G Marcall, a former Director of the Company, following his resignation from the Company.

In addition to the above, compensation for loss of office amounting to £112,235 has been paid during the year to Mr T Was a former Director of the Company, and an amount of £125,235 has been paid into the Company's defined contribution pensio scheme for his benefit.

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 1st October 1996 and 30th September 1997 were as follows:

	Ordinary shares 1997	Ordinary shares 1996	Class 1 options over ordinary shares 1997	Class 1 options over ordinary shares 1996	Class 2 options over ordinary shares 1997	Class 2 options over ordinary shares 1996	SAYE scheme options over ordinary shares 1997 and 1996	Pre 1
D Crossland†	**16,179,958**	16,179,958	–	–	–	–	–	
M M Arison#	**40,000,000**	40,000,000	–	–	–	–	–	**3,7**
Sir Michael Bishop	**67,200**	67,200	–	–	–	–	–	
A H Coe‡	**43,046**	49,046	**50,000**	50,000	**90,540**	90,540	**6,265**	
H H Collinson	**250,000**	713,786	**65,000**	277,835	**65,000**	135,945	**6,265**	
R O Davies	**10,000**	10,000	–	–	–	–	–	
Sir Tom Farmer	**25,000**	25,000	–	–	–	–	–	
H S Frank	–	–	–	–	–	–	–	
M C Lee	**40,402**	67,402	**100,000**	100,000	**140,540**	140,540	**6,265**	
B C Sandahl	–	–	–	–	–	–	–	
E F Sanderson	**6,240**	6,240	–	–	–	–	–	

† Under an agreement dated 21st February 1996, Mr T Trickett, a former Director of the Company, had agreed to exercise the voting rights in respect of 3,500,000 ordinary shares that he held in the Company in accordance with Mr D Crossland's instructions and had agreed not to sell such shares without Mr Crossland's conse This agreement was terminated on 7th April 1997. Mr Crossland's holding at 1st October 1996, as noted in the table above, does not include his interest, arising p to such agreement, in 3,500,000 ordinary shares then held by Mr Trickett.

\# 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 interested in the 40,000,000 ordinary shares and 3,789,374 preference shares which are registered in the name of Carnival (UK) Limited, a wholly owned subsidiar of Carnival Corporation.

‡ Of the 43,046 ordinary shares (1st October 1996: 49,046) 23,594 (1st October 1996: 29,594) represents a non-beneficial interest.

In the period between 30th September 1997 and 1st December 1997 there were no changes in the Directors' interests referre to above.

Remuneration committee report

The undermentioned Directors had outstanding the following options to acquire ordinary shares of the Company under the terms of the Airtours plc Share Option Scheme (1986) or the Airtours plc Savings-Related Share Option Scheme at 30th September 1997.

		At 30th Sept 1997	At 1st Oct 1996	Exercise price	Date from which exercisable	Expi da
A H Coe	Class 2	**40,540**	40,540	115.68p	05.07.96	04.07.0
	SAYE	**6,265**	6,265	275.00p	01.10.98	31.03.9
	Class 1	**50,000**	50,000	448.50p	05.08.97	04.08.0
	Class 2	**50,000**	50,000	448.50p	05.08.99	04.08.0
H H Collinson	Class 1	–	190,538	106.06p	01.07.94	30.06.0
	Class 1	–	22,297	115.68p	05.07.94	04.07.0
	Class 2	–	70,945	115.68p	05.07.96	04.07.0
	SAYE	**6,265**	6,265	275.00p	01.10.98	31.03.9
	Class 1	**65,000**	65,000	448.50p	05.08.97	04.08.0
	Class 2	**65,000**	65,000	448.50p	05.08.99	04.08.0
M C Lee	Class 2	**40,540**	40,540	115.68p	05.07.96	04.07.0
	SAYE	**6,265**	6,265	275.00p	01.10.98	31.03.9
	Class 1	**100,000**	100,000	448.50p	05.08.97	04.08.0
	Class 2	**100,000**	100,000	448.50p	05.08.99	04.08.0

The mid market price of the Company's ordinary shares at the close of business on 30th September 1997 was 1052.5p (1996: 602.5 and the range during the financial year ended 30th September 1997 was 593.5p to 1240.0p as derived from the London Stock Exchange Daily Official List.

None of the Directors' were granted any share options during the year ended 30th September 1997. No Directors' share options lapsed unexercised during the year. Set out below is a summary of the gains on exercise made by Mr H H Collinson, the only Director to exercise any share options during the year. No Directors' exercised any share options during the year ended 30th September 1996.

		Exercised during year	Exercise price	Market price at date of exercise	Gain
H H Collinson	Class 1	190,538	106.06p	825.00p	1,369,85
	Class 1	22,297	115.68p	825.00p	158,15
	Class 2	70,945	115.68p	825.00p	503,22
					2,031,23

Directors' report

The Directors present their report together with financial statements and auditors' report for the year ended 30th September 19

Principal activities Airtours plc operates within the leisure travel industry with businesses in the United Kingdom, Mainland Eur Canada and the United States of America.

On 13th June 1997, the Group and its joint venture partner, Carnival Corporation, jointly acquired control of Costa Crociere S based in Genoa, Italy, the leading passenger cruise operator in the European market and the fourth largest in the world. Sunque Holidays, a new tour operating business based in Southern California, commenced operations on 2nd December 1996. On 2nd 1997 the Group acquired Suntrips, a tour operator based in San Jose, Northern California. On 28th October 1997, Scandinavian Leisure Group announced its intention to establish a tour operation based in Poland, the Group's first venture into Eastern Europ commence operations in February 1998. During the year the Group entered into the rapidly expanding timeshare market throug a joint venture to create a new development in Orlando, Florida. Subsequently, the Group acquired 100% ownership of a partia completed development in Gran Canaria which is being converted into a new timeshare resort. The first timeshare apartments will be available for occupancy during 1998. A full review of the Group's activities and its financial position at 30th September 1 are reported in the Chairman's statement and in the Operating and financial reviews on pages 2 to 27.

Results and dividends Profits for the year after tax and minority interests amount to £90.5m (1996: £64.9m) from which preference dividends amounting to £2.5m (1996: £3.2m) have been deducted. The Directors recommend a final dividend of 16.0 (1996: 12.75p) per ordinary share amounting to £22.8m to be paid on 16th February 1998, which, with the interim dividend of 4.00p (1996: 3.25p) per ordinary share, amounting to £5.7m, paid on 24th June 1997, makes a total of 20.00p for the year (1996: 16.00p). The retained profit of £59.4m (1996: £40.0m) has been added to reserves.

Creditor payment policy It is the Company's policy to comply with the terms of payment agreed with its suppliers. Where pay 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 30th September 1997 was 33 days (1996: 37 days). The number of days credit taken by Group Companies for trade purchases at 30th September 1997 ranges from 13 days to 54 (1996: 11 days to 44 days). The average number of days taken was 34 days (1996: 35 days).

Directors The Directors in office at the end of the year and their interests in the shares of the Company are listed on page 35.

Mr R O Davies, Mr M C Lee and Sir Tom Farmer retire by rotation at the forthcoming Annual General Meeting and, being elig offer themselves for re-election. Mr Davies has a letter of appointment, which is terminable by the Company at any time on six m notice, and in any event, terminates on 30th April 2000. Mr Lee has a service contract which is terminable by the Company at a time on 24 months notice. Sir Tom Farmer does not have either a service contract or a letter of appointment with the Company.

On 10th December 1997 Mr T R Byrne was appointed a Director of the Company. In accordance with the Articles of Associat Mr Byrne retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

During the course of the year The British Linen Bank Group Limited entered into a US$40,000,000 revolving credit facility wit Lake Eve Development, a Florida Law general partnership in which the Company has an interest. At the time the loan was entered into, Mr E F Sanderson, who is a Director of the Company, was Chief Executive of The British Linen Bank Group Limited During the year, save as referred to in the Remuneration Committee Report, note 33 to the financial statements and this paragr no Director is or was materially interested in any contract of significance to which the Company or any of its subsidiary underta is or was a party.

Employee involvement The Group has continued its practice of keeping its employees informed of matters affecting them an the financial and economic factors affecting the performance of the Group. This is achieved through consultations with employ generally and through the medium of employee newsletters and regular news bulletins.

The Airtours plc Savings-Related Share Option Scheme was introduced during 1993 and is open to all eligible employees with United Kingdom. Under the terms of the Scheme, the Directors may offer options to purchase ordinary shares in the Company 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 af completion of the savings contract.

Disabled employees Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of members of staff becoming disabled every effort is made ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group t training, career development and promotion opportunities should be available to all employees.

Charitable and political donations The Group made UK charitable donations of £57,000 during the year. No political donatic were made.

Directors' report

Substantial shareholders At 1st December 1997, the Company had been notified of the following shareholdings, in addition to those of Directors listed on page 35, amounting to 3% or more of the issued ordinary share capital of the Company:

	Number of ordinary shares held	% of issue ordina share capit
Carnival Corporation	40,000,000	28.0
Schroder Investment Management Limited	12,295,792	8.6
GE Investments	7,142,434	5.0
College Retirement Equity Fund	5,238,500	3.6

Annual General Meeting The notice convening the Annual General Meeting, to be held on 22nd January 1998, is incorporated in a letter which is being sent to shareholders by the Chairman and which explains the special business which is to be transacted at the Meeting.

Auditors Arthur Andersen offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

By order of the Board

D C Burns Secretary
10th December 1997

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

Accounting policies

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

The principal accounting policies of the Group, all of which have been applied consistently throughout the year and the prece year, are set out below.

1) Basis of consolidation The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 30th September 1997. The results of subsidiary undertakings acquired during the year have been included from th of acquisition. Acquisitions are accounted for under the acquisition method with goodwill, representing the difference, if any, of fair value of the consideration given compared to the fair value of the identifiable assets and liabilities acquired, being written of against or added back to reserves. Profits and losses on intra-group transactions are eliminated in full.

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

2) Associated undertakings Undertakings, other than subsidiary undertakings, in which the Group has a long term investmen representing at least 20% of the voting rights and over which it exerts significant influence, are associated undertakings.

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

Investments in associated undertakings in the Group balance sheet are valued at the Group's share of associated undertaking assets, after adjustment for goodwill.

3) Income recognition Turnover represents the aggregate amount of revenue receivable from inclusive tours (net of agents' commissions), 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 expense 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.

4) Investments Investments are included at cost less amounts written off. Investment income comprises dividends received duri the accounting period and interest receivable on listed and unlisted investments.

5) Aircraft overhaul and maintenance costs Provision is made for the future costs of major overhauls of engines, auxiliary po units and airframes by making appropriate charges to the profit and loss account calculated by reference to the number of hour flown during the period.

6) Depreciation Depreciation on tangible fixed assets other than freehold land, upon which no depreciation is provided, is calc on a straight line or reducing balance basis and aims to write down their cost to their estimated residual value over their expecte 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

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

8) Deferred tax Provision is made for deferred tax using the liability method. It is calculated by reference to the tax rates estima to be in effect in the year in which the timing differences reverse. Provision is not made for taxation which would be payable if t net profit of overseas subsidiaries and associated undertakings were remitted to the United Kingdom.

9) Foreign currencies Each year an estimate of the results of certain of the Company's overseas subsidiary undertakings are he 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. The balance sheets of overseas subsidiary undertakings are translated at year end exchange ra 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. Foreign curr assets and liabilities held at year end are translated at year end exchange rates, or the exchange rate of related hedging instrum where appropriate. The resulting exchange gain or loss is dealt with in the profit and loss account.

10) Leased assets Assets held under finance leases are capitalised in the balance sheet and depreciated over their expected use lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charg 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.

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

The Group also operates a number of defined benefit schemes, principally in Scandinavia, and the pension costs charged aga profits are based on actuarial methods and assumptions prescribed in accordance with local practice and legislation.

Group profit and loss account

Year ended 30th September 1997	Notes	1997 £m	1997 £m	199 £r
Turnover	1		**2,174.3**	1,717.
Cost of sales	2		**(1,900.0)**	(1,489.
Gross profit			**274.3**	228.
Net operating expenses	2		**(175.4)**	(151.
Operating profit	1		**98.9**	77.
Share of profits/(losses) of associated undertakings	1,3		**7.4**	(0.
Net interest receivable	1,4		**14.0**	10.
Profit on ordinary activities before tax	1,5		**120.3**	86.
Tax on profit on ordinary activities	6		**(29.6)**	(21.
Profit on ordinary activities after tax			**90.7**	65.
Minority interests – equity			**(0.2)**	(0.
Profit for the financial year	7		**90.5**	64.
Dividends	8			
Equity		**(28.6)**		(21.
Non-equity		**(2.5)**		(3.
			(31.1)	(24.
Profit retained	23		**59.4**	40.
Basic earnings per ordinary share	9		**63.82p**	49.2
Fully diluted earnings per ordinary share	9		**59.04p**	45.6

Statement of total recognised gains and losses

Year ended 30th September 1997	Note	1997 £m	199 £
Profit for the financial year		**90.5**	64.
Currency differences on foreign currency net investments		**(20.6)**	(6.
Total recognised gains and losses		**69.9**	58.
Prior year adjustment	10	–	(8.
Total recognised gains and losses relating to the year		**69.9**	49.

The accounting policies on page 39 and notes on pages 44 to 58 form part of these financial statements.

Group balance sheet

At 30th September 1997	Notes	1997 £m	1997 £m
Fixed assets			
Tangible assets	12		**267.8**
Investments	13		**52.1**
			319.9
Current assets			
Stocks	14	**6.4**	
Debtors: amounts falling due within one year	15	**232.2**	
Debtors: amounts falling due after one year	16	**99.5**	
Investments	17	**10.9**	
Cash and deposits	18	**406.6**	
		755.6	
Creditors: amounts falling due within one year	19	**617.6**	
Net current assets			**138.0**
Total assets less current liabilities			**457.9**
Creditors: amounts falling due after one year	20	**130.4**	
Provisions for liabilities and charges	21	**81.2**	
			211.6
Net assets			**246.3**
Capital and reserves			
Called up share capital	22		**20.0**
Share premium account	23		**178.4**
Capital redemption reserve	23		**3.7**
Profit and loss account	23		**43.7**
Shareholders' funds			**245.8**
Minority interests – equity			**0.5**
			246.3
Shareholders' funds			
Equity shareholders' funds			**217.8**
Non-equity shareholders' funds			**28.0**
			245.8

The financial statements were approved by the Board of Directors on 10th December 1997.

A H Coe
Director

The accounting policies on page 39 and notes on pages 44 to 58 form part of these financial statements.

Company balance sheet

At 30th September 1997	Notes	1997 £m	1997 £m	199 £r
Fixed assets				
Tangible assets	12		**37.5**	32.
Investments	13		**358.1**	112.
			395.6	145.
Current assets				
Stocks	14	**0.6**		0.
Debtors: amounts falling due within one year	15	**388.8**		267.
Debtors: amounts falling due after one year	16	**61.0**		45.
Cash and deposits	18	**252.1**		320.
		702.5		634.
Creditors: amounts falling due within one year	19	**639.6**		422.
Net current assets			**62.9**	212.
Total assets less current liabilities			**458.5**	357.
Creditors: amounts falling due after one year	20	**59.4**		8.
Provisions for liabilities and charges	21	**0.5**		0.
			59.9	9.
Net assets			**398.6**	348.
Capital and reserves				
Called up share capital	22		**20.0**	23.
Share premium account	23		**178.4**	177.
Capital redemption reserve	23		**3.7**	0.
Other reserves	23		–	51.
Profit and loss account	23		**196.5**	96.
			398.6	348.
Shareholders' funds				
Equity shareholders' funds			**370.6**	299.
Non-equity shareholders' funds			**28.0**	48.
			398.6	348.

The financial statements were approved by the Board of Directors on 10th December 1997.

A H Coe
Director

The accounting policies on page 39 and notes on pages 44 to 58 form part of these financial statements.

Group cash flow statement

Year ended 30th September 1997	Notes	1997 £m	1997 £m
Net cash inflow from operating activities	25		**155.9**
Returns on investments and servicing of finance			
Interest received		**25.1**	
Interest paid		**(11.2)**	
Preference dividends paid		**(3.2)**	
Interest element of finance leases		**(0.7)**	
Minority interests		**–**	
Net cash inflow from returns on investments and servicing of finance			**10.0**
Tax			**(13.7)**
Capital expenditure and financing activities			
Purchase of tangible fixed assets		**(88.0)**	
Purchase of fixed asset investments		**–**	
Loan to associated undertaking		**(56.9)**	
Sale of tangible fixed assets		**30.9**	
Sale of fixed asset investments		**–**	
Net cash outflow from capital expenditure and financing activities			**(114.0)**
Acquisitions	13		
Purchase of subsidiary undertakings		**(14.4)**	
Acquisition expenses		**(0.4)**	
Cash at bank and in hand acquired with subsidiaries		**10.4**	
Investment in associated and joint venture undertakings		**(24.7)**	
Net cash outflow from acquisitions			**(29.1)**
Equity dividends paid			**(23.1)**
Cash (outflow)/inflow before use of liquid resources and financing			**(14.0)**
Management of liquid resources			
Movement on term deposits		**114.4**	
Purchase of securities under managed investment		**(9.5)**	
Sale of securities under managed investment		**8.2**	
Net cash inflow/(outflow) from management of liquid resources			**113.1**
Financing			
Issue of shares		**1.3**	
Expenses paid in connection with share issues		**–**	
Loan repayments		**(140.6)**	
New bank loans		**148.2**	
Capital element of finance lease rental payments		**(0.5)**	
Net cash inflow from financing			**8.4**
Increase/(decrease) in cash in the year	26		**107.5**

The accounting policies on page 39 and notes on pages 44 to 58 form part of these financial statements.

Notes to the financial statements

1) Segmental information	Total 1997 £m	Total 1996 £m	Tour operations 1997 £m	Tour operations 1996 £m	Retail 1997 £m	Reta 199 £
Turnover						
United Kingdom	**1,128.8**	951.0	**953.0**	793.9	**175.8**	157.
Scandinavia	**834.5**	659.5	**834.5**	659.5	–	-
North America						
– continuing	**188.7**	107.4	**188.7**	107.4	–	-
– acquisitions	**22.3**	–	**22.3**	–	–	-
	2,174.3	1,717.9	**1,998.5**	1,560.8	**175.8**	157.
Operating profit						
United Kingdom	**65.3**	41.3	**55.3**	36.2	**10.0**	5.
Scandinavia	**38.5**	34.2	**38.5**	34.2	–	
North America						
– continuing	**(4.5)**	1.9	**(4.5)**	1.9	–	
– acquisitions	**(0.4)**	–	**(0.4)**	–	–	
	98.9	77.4	**88.9**	72.3	**10.0**	5.
Share of profits/(losses) of associated undertakings (see note 3)	**7.4**	(0.6)	**7.4**	(0.6)	–	
Net interest receivable						
United Kingdom	**15.0**	9.2	**11.0**	5.6	**4.0**	3.
Scandinavia	**0.7**	0.9	**0.7**	0.9	–	
North America						
– continuing	**(1.8)**	(0.1)	**(1.8)**	(0.1)	–	
– acquisitions	**0.1**	–	**0.1**	–	–	
	14.0	10.0	**10.0**	6.4	**4.0**	3.
Profit on ordinary activities before tax						
United Kingdom	**80.3**	50.5	**66.3**	41.8	**14.0**	8.
Scandinavia	**39.2**	35.1	**39.2**	35.1	–	
North America						
– continuing	**(6.3)**	1.8	**(6.3)**	1.8	–	
– acquisitions	**(0.3)**	–	**(0.3)**	–	–	
Share of profits/(losses) of associated undertakings	**7.4**	(0.6)	**7.4**	(0.6)	–	
	120.3	86.8	**106.3**	78.1	**14.0**	8
Net assets						
United Kingdom	**104.2**	111.8	**88.1**	94.4	**16.1**	17
Scandinavia	**98.8**	91.2	**98.8**	91.2	–	
Other Europe	**43.5**	–	**43.5**	–	–	
North America	**(0.2)**	4.5	**(0.2)**	4.5	–	
	246.3	207.5	**230.2**	190.1	**16.1**	17

2) Cost of sales and net operating expenses	**Continuing operations 1997 £m**	**Acquisitions 1997 £m**	**Total 1997 £m**	
Cost of sales	**1,880.0**	**20.0**	**1,900.0**	1,
Net operating expenses				
Selling costs	**23.1**	**0.8**	**23.9**	
Administrative expenses	**121.4**	**1.4**	**122.8**	
Other charges	**28.2**	**0.5**	**28.7**	
	172.7	**2.7**	**175.4**	

3) Share of profits/(losses) of associated undertakings	**1997 £m**
Costa	**5.1**
Tenerife Sol	**2.3**
Premiair	**–**
	7.4

At 30th September 1997, the Group owned 49.1% of Costa. The Group's share of the profit before tax of Costa is derived fron management accounts to 30th September 1997 as set out below:

Turnover
Operating profit
Net interest charge
Profit before tax

Operating profit is stated after charging reorganisation provisions of £14.0m. Additional information relating to the Group's invest in Costa is set out in note 13.

Premiair was accounted for as an associated undertaking up to 14th February 1996. On 15th February 1996, following the G acquisition of Spies, Premiair became a wholly owned subsidiary undertaking.

4) Net interest receivable	**1997 £m**
Interest payable on:	
– bank borrowings	**9.1**
– other borrowings	**0.6**
Finance charges in respect of finance leases	**0.7**
	10.4
Bank interest receivable	**24.4**
	14.0

Notes to the financial statements

5) Profit on ordinary activities before tax

The profit on ordinary activities is stated after charging:	1997 £m	1996 £m
Auditors' remuneration		
– audit services	**0.5**	0.4
Depreciation of tangible fixed assets		
– owned	**32.0**	28.7
– held under finance leases	**0.3**	0.2
Operating lease payments		
– hire of aircraft and aircraft spares	**82.7**	63.2
– hire of other plant and machinery	**1.5**	0.9
– other	**30.3**	34.2

In addition to fees paid to the auditors for audit services, fees for non-audit services amounted to £1.0m (1996: £1.0m).

6) Tax on profit on ordinary activities

The tax charge is based on the profit for the year and is made up as follows:	1997 £m	199 £
United Kingdom:		
Corporation tax	**9.2**	10.
Deferred tax	**11.7**	3.
	20.9	14.
Overseas:		
Corporation tax	**5.7**	5.
Deferred tax	**3.6**	2.
Tax on share of profits/(losses) of associated undertakings	**1.0**	0.
	31.2	22.
Adjustments in respect of prior year:		
United Kingdom:		
Corporation tax	**(0.8)**	(0.
Deferred tax	**(0.8)**	(0.
	29.6	21.

7) Profit for the financial year

The parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The profit after tax of the Company amounted to £80.2m (1996: £17.5m).

8) Dividends	1997 £m
Equity dividends: ordinary	
1996 final dividend of 12.75p per share paid 17th February 1997 on share options exercised between 1st October 1996 and 7th January 1997	**0.1**
Interim dividend of 4.00p per share paid 24th June 1997 (1996: 3.25p)	**5.7**
Proposed final dividend of 16.00p per share payable 16th February 1998 (1996: 12.75p)	**22.8**
	28.6
Non-equity dividends: convertible cumulative preference dividend of 6.375p per share (1996: 6.375p per share)	
3.1875p per share paid 1st April 1997	**1.6**
3.1875p per share payable 1st October 1997	**0.9**
	2.5
	31.1

9) Earnings per share
Basic earnings per ordinary share is based on the profit for the financial year, after deducting preference dividends, of £88.0m (1996: £61.7m) and on 137,821,313 (1996: 125,322,221) ordinary shares of 10p each, being the weighted average number of ordinary shares in issue during the year ended 30th September 1997.

Fully diluted earnings per ordinary share is based on adjusted earnings of £91.3m (1996: £65.6m) and on 154,674,611 (1996: 143,709,985) ordinary shares of 10p each which takes account of all outstanding share options and the conversion of th convertible cumulative preference shares.

10) Prior year adjustment
The Group policy for providing for the cost of non-revenue earning flights at the end of a season was changed during the year 30th September 1996. Previously, the cost of these flights ("empty legs") was charged against profits as they were incurred. For financial years ending subsequent to 30th September 1995 the policy has been changed in order to accrue evenly throughout t season the cost of such flights. £8.4m represents the amount by which the Group's net assets were restated at 1st October 199 order to comply with the new policy.

11) Directors and employees

Staff costs during the year were as follows:	1997 £m
Wages and salaries	**218.0**
Social security costs	**25.4**
Other pension costs (see note 31)	**6.2**
	249.6

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

	1997 Number
Tour operations	**9,260**
Retail	**4,568**
	13,828

Further information concerning Directors' emoluments and details of shareholdings and options is disclosed in the Remuneratio committee report on pages 33 to 36.

Notes to the financial statements

12) Tangible fixed assets

The Group	Total £m	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Cruise ships £m	Other fixe asse £
Cost						
At 1st October 1996	385.0	63.7	37.4	88.8	64.5	130.
Additions	87.9	2.2	5.0	24.8	32.1	23.
Acquisition of subsidiary undertakings	1.3	–	0.3	–	–	1.
Exchange differences	(22.6)	(10.2)	(0.4)	(3.9)	–	(8.
	451.6	55.7	42.3	109.7	96.6	147.
Disposals	41.2	0.1	1.5	0.3	30.5	8.
At 30th September 1997	**410.4**	**55.6**	**40.8**	**109.4**	**66.1**	**138.**
Depreciation						
At 1st October 1996	128.6	11.1	25.6	10.5	6.3	75.
Provided in year	32.3	1.6	3.1	7.5	6.2	13.
Acquisition of subsidiary undertakings	1.0	–	0.2	–	–	0.
Exchange differences	(8.9)	(1.9)	(0.6)	(0.6)	–	(5.
	153.0	10.8	28.3	17.4	12.5	84.
Disposals	10.4	–	1.3	0.2	1.2	7.
At 30th September 1997	**142.6**	**10.8**	**27.0**	**17.2**	**11.3**	**76.**
Net book value at 30th September 1997	**267.8**	**44.8**	**13.8**	**92.2**	**54.8**	**62.**
Net book value at 30th September 1996	256.4	52.6	11.8	78.3	58.2	55.

The Company						
Cost						
At 1st October 1996	57.8	2.6	2.6	–	–	52
Additions	41.4	–	1.1	–	30.5	9
Intra group transfers	(0.7)	–	–	–	–	(0
	98.5	2.6	3.7	–	30.5	61
Disposals	31.5	–	0.2	–	30.5	0
At 30th September 1997	**67.0**	**2.6**	**3.5**	–	–	**60**
Depreciation						
At 1st October 1996	25.4	0.1	0.7	–	–	24
Provided in year	5.8	–	0.1	–	1.2	4
Intra group transfers	(0.2)	–	–	–	–	(0
	31.0	0.1	0.8	–	1.2	28
Disposals	1.5	–	0.2	–	1.2	0
At 30th September 1997	**29.5**	**0.1**	**0.6**	–	–	**28**
Net book value at 30th September 1997	**37.5**	**2.5**	**2.9**	–	–	**32**
Net book value at 30th September 1996	32.4	2.5	1.9	–	–	28

The net book value of finance leases included above is made up as follows:	The Group 1997 £m	The Gro 19 £
Land and buildings	**4.4**	5
Aircraft spares	**1.1**	1
	5.5	6

Included in the amounts noted above under cruise ships is £30.5m in respect of the purchase of the MS Sundream which was subsequently sold at cost. Following the sale of the MS Sundream a leasing arrangement has been entered into under which the Company makes regular fixed rental payments.

13) Fixed asset investments	The Group 1997 £m	The Group 1996 £m	The Company 1997 £m	The Co
Subsidiary undertakings	–	–	**335.8**	
Associated undertakings	**51.3**	5.6	**22.2**	
Other investments	**0.8**	0.9	**0.1**	
	52.1	6.5	**358.1**	

Subsidiary undertakings	The Co
Cost and net book value	
At 1st October 1996	
Additions	
Disposal	
At 30th September 1997	

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

A list of principal subsidiary and associated undertakings is shown in note 35. All of the subsidiary undertakings have been consolidated in the Group financial statements.

Included as a subsidiary undertaking is The BTN Finance Company, a company in which Airtours plc owns 50% of the issued ordinary share capital. The day to day management and treasury functions of this company are controlled by Airtours plc. As the Company exercises dominant influence it is therefore consolidated in these financial statements in accordance with Section 258(the Companies Act 1985.

The BTN Finance Company has a non coterminous year end of 31st March and the Directors believe that to change this year would be to the disadvantage of the other shareholder. The amounts included in these financial statements are based on audite financial statements prepared for the year to 31st March 1997 and management accounts for the period to 30th September 19 On 1st October 1997 the BTN Finance Company redeemed £154.0m of preference shares owned by another Group Company.

The results of ST Pacific Holdings Inc., the parent undertaking of SunTrips Inc. a Californian tour operator, acquired during the have been consolidated with effect from 2nd June 1997, using the acquisition method of accounting and are as follows:

Subsidiary undertaking	Loss after tax for the financial year ended 31st December 1996 £m	Loss after tax from 1st January 1997 to date of acquisition £m	**Lo tax from acquis 30th Sep**
ST Pacific Holdings Inc.	0.3	2.2	

The following table sets out the major classes of assets and liabilities acquired within ST Pacific Holdings Inc:	Book va f to th
Fixed assets	
Debtors	
Tax	
Cash and deposits	
Creditors	
Net assets	
Goodwill	
Consideration	

The total consideration in respect of the acquisition of ST Pacific Holdings Inc. is made up as follows:

Cash	
Deferred consideration	
Costs	

In addition to the goodwill arising on the acquisition of ST Pacific Holdings Inc. a further £2.6m of goodwill has arisen in the yea following the purchase of the remaining 40% interest in Sunet SA (now wholly owned) for a cash consideration of £2.6m. Sune owns the Beach and Sunwing Hotels in Rhodes. Accordingly, the total cash outflow in relation to the purchase of subsidiary undertakings amounted to £14.4m comprising £11.8m for ST Pacific Holdings Inc. and £2.6m for Sunet SA.

Notes to the financial statements

13) Fixed asset investments continued Associated undertakings	**The Group Share of net assets £m**	**The Compan Share £**
At 1st October 1996	5.6	
Additions	39.2	22.
Exchange differences	0.1	
Share of profits/(losses) of associated undertakings	6.4	
At 30th September 1997	**51.3**	**22.**

The investment in associated undertakings at 30th September 1997 represents a 50% equity interest in Tenerife Sol SA, a non listed hotel operator, incorporated and operating in Spain and a 50% equity interest in Il Ponte SpA which holds approximately 98% of th ordinary share capital of Costa Crociere SpA, an Italian cruise operator, listed on the Italian Stock Exchange, which was acquired on 13th June 1997.

In addition Il Ponte SpA holds approximately 93% and 47% respectively of the non voting savings shares and saving share warrants of Costa at 30th September 1997. Il Ponte SpA will launch a mandatory residual offer on 15th December 1997 for the remaining publicly held share capital of Costa which is expected to close on 8th January 1998, at a 12.5% increase over the original price. The additional estimated consideration arising therefrom has been taken into account in calculating the amount of provisional goodwill.

In addition, through its wholly owned subsidiary undertaking, Carousel Holidays Limited, the Group holds a 50% share in Lake Eve Development, a Florida Law General Partnership.

The total consideration in respect of acquisitions in the year is arrived at as follows:

	Tot £
Share of net assets acquired	39.
Negative goodwill on acquisition	(14.
Total consideration	24.
Represented by	
Cash	21.
Costs	2.
	24.

All the negative goodwill arises on the Group's interest in Costa.

The share of Costa's net assets attributable to the Group at 30th September 1997 of £43.5m is based on the net assets of Costa's management accounts as at 30th September 1997 and, together with their balance sheet at the date of acquisition, are set out below

	At 30th September 1997 £m	Book value at date of acquisition £m	Alignment of accounting policies £m	Fair value adjustments £m	Fair val at acquisiti £
Fixed assets	**575.7**	585.4	–	(11.8)	573.
Investments	**4.2**	4.5	–	–	4
Total fixed assets	**579.9**	589.9	–	(11.8)	578
Net current operating assets	**(46.7)**	(1.6)	(2.1)	0.1	(3
Long term creditors and provisions	**(58.9)**	(44.6)	3.6	(24.5)	(65
	474.3	543.7	1.5	(36.2)	509
Net borrowings	**(387.3)**	(433.5)	–	–	(433
Total net assets	**87.0**	110.2	1.5	(36.2)	75

The net adjustment of £1.5m arising from the alignment of Costa's accounting policies with those of the Group arises from the changes to timing of the recognition of dry dock costs and advertising expenditure.

The provisional fair value adjustments of £36.2m arise from the revaluation of the fleet and the discounting of Italian State grant receivables.

Other investments	**The Group 1997 £m**	The Group 1996 £m	**The Company 1997 £m**	The Compa 19 £
At 1st October	0.9	0.9	0.1	
Additions	–	0.1	–	0
Disposals	–	(0.1)	–	
Exchange differences	(0.1)	–	–	
At 30th September	**0.8**	0.9	**0.1**	0

Other investments at net book value include:

	1997 £m	1996 £m	**1997 £m**	19 £
Investments listed on a recognised investment exchange	**0.1**	0.1	**0.1**	0
Miscellaneous trade investments	**0.7**	0.8	**–**	
	0.8	0.9	**0.1**	0

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

14) Stocks	**The Group 1997 £m**	The Group 1996 £m	**The Company 1997 £m**	The Co
Goods held for resale	**3.1**	2.9	**0.6**	
Consumables	**3.3**	3.9	–	
	6.4	6.8	**0.6**	

15) Debtors: amounts falling due within one year	**The Group 1997 £m**	The Group 1996 £m	**The Company 1997 £m**	The Co
Trade debtors	**41.8**	38.2	**4.9**	
Amounts owed by subsidiary undertakings	–	–	**275.1**	
Amounts owed by associated undertakings	**61.3**	–	**59.5**	
Other debtors	**27.7**	32.5	**7.5**	
Deposits and prepayments	**101.4**	102.9	**41.8**	
	232.2	173.6	**388.8**	

16) Debtors: amounts falling due after one year	**The Group 1997 £m**	The Group 1996 £m	**The Company 1997 £m**	The C
Advance corporation tax recoverable	–	–	**4.0**	
Other debtors	**22.1**	6.2	–	
Deposits and prepayments	**77.4**	56.1	**57.0**	
	99.5	62.3	**61.0**	

17) Current asset investments	**The Group 1997 £m**	Th
At 1st October	9.7	
Additions	9.5	
	19.2	
Disposals	8.3	
At 30th September	**10.9**	
Current asset investments comprise:		
Listed:		
UK government securities	**1.4**	
Other UK investments	**7.0**	
Investments listed overseas	**1.1**	
	9.5	
Unlisted:		
Deposits	**1.4**	
	10.9	

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

18) Cash and deposits	**The Group 1997 £m**	The Group 1996 £m	**The Company 1997 £m**	The C
Cash at bank and in hand	**207.0**	111.6	**73.4**	
Term deposits	**199.6**	314.0	**178.7**	
	406.6	425.6	**252.1**	

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

Notes to the financial statements

19) Creditors: amounts falling due within one year	The Group 1997 £m	The Group 1996 £m	The Company 1997 £m	The Compar 19 £
Loans and overdrafts (see note 20)	**0.6**	35.2	**–**	
Trade creditors	**248.9**	211.3	**45.9**	46.
Amounts owed to subsidiary undertakings	–	–	**426.3**	256.
Amounts owed to associated undertakings	**0.2**	–	**0.1**	
Current tax	**16.1**	17.8	**1.7**	0.
Social security and other taxes	**7.0**	6.7	**2.8**	2.
Other creditors	**31.8**	49.7	**8.4**	5.
Dividends	**23.7**	18.9	**23.7**	18.
Accruals and deferred income	**89.3**	80.9	**30.2**	14.
Amounts due under finance leases (see note 20)	**0.6**	0.6	–	
Revenue received in advance	**199.4**	166.8	**100.5**	77.
	617.6	587.9	**639.6**	422.

20) Creditors: amounts falling due after one year	The Group 1997 £m	The Group 1996 £m	The Company 1997 £m	The Compar 19 £
Loans (see below)	**86.0**	43.8	**48.9**	
Trade creditors	**0.9**	–	–	
Other creditors	**4.1**	14.4	–	
Accruals and deferred income	**33.9**	16.8	**10.5**	8.
Amounts due under finance leases (see below)	**5.5**	7.1	**–**	
	130.4	82.1	**59.4**	8.

Loans and overdrafts	The Group 1997 £m	The Group 1996 £m	The Company 1997 £m	The Compar 19 £
Bank loans	**83.9**	70.1	**48.9**	
Unsecured loan notes	**2.7**	8.9	**–**	
	86.6	79.0	**48.9**	
Less: amounts falling due within one year	**0.6**	35.2	–	
Amounts falling due after one year	**86.0**	43.8	**48.9**	
Analysis of repayments				
Between one and two years	**2.1**	8.8	–	
Between two and five years	**83.9**	35.0	**48.9**	
	86.0	43.8	**48.9**	

Of the bank loans, £48.9m is an unsecured sterling loan, with a floating interest rate, repayable on 21st April 2002. £35.0m is an unsecured loan, with a floating interest rate, denominated in Greek Drachma, repayable on 5th 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 dra down and the hedged rate is included in accruals and deferred income and released to interest income over the term of the loan.

The interest rate on the unsecured loan notes of £2.7m, issued in connection with the acquisition of Winston Rees (World) Travel by Going Places in 1994, is payable at bank base rate.

Finance leases	The Group 1997 £m	The Grou 19 £
Total outstanding	**6.1**	7.
Less: amounts falling due within one year	**0.6**	0.
Amounts falling due after one year	**5.5**	7.
Analysis of repayments		
Between one and two years	**0.1**	0.
Between two and five years	**2.7**	2.
After five years	**2.7**	4.
	5.5	7.

21) Provisions for liabilities and charges	The Group 1997 £m	The Group 1996 £m	The Company 1997 £m	The Co
Deferred tax	**33.0**	20.3	**0.5**	
Other provisions	**48.2**	43.1	–	
	81.2	63.4	**0.5**	

Deferred tax	The Group 1997 £m	The Co
At 1st October 1996	20.3	
Charged during the year	14.5	
Exchange differences	(1.5)	
Advance corporation tax	(0.3)	
At 30th September 1997	**33.0**	

Deferred tax comprises:

	The Group 1997 £m	The Group 1996 £m	The Company 1997 £m	The C
Accelerated capital allowances	**35.8**	22.6	**0.7**	
Short term timing differences	**2.2**	2.4	**0.8**	
	38.0	25.0	**1.5**	
Less: advance corporation tax	**5.0**	4.7	**1.0**	
	33.0	20.3	**0.5**	

There is no unprovided deferred tax at the year end (1996: nil).

Other provisions	Total 1997 £m	Pension provisions 1997 £m	maint pro
At 1st October 1996	43.1	6.2	
Provided during the year	29.3	0.6	
	72.4	6.8	
Utilised in the year	(21.6)	(0.1)	
Exchange differences	(2.6)	(1.0)	
At 30th September 1997	**48.2**	**5.7**	

22) Share capital

Authorised	1997 £m
35,516,527 (1996: 17,463,769) unclassified shares of 20p each	**7.1**
28,732,688 (1996: 49,899,012) 6.375p (net) convertible cumulative preference shares of 20p each	**5.8**
205,450,520 (1996: 199,223,388) ordinary shares of 10p each	**20.5**
	33.4

Allotted called up and fully paid	1997 £m
28,732,688 (1996: 49,899,012) 6.375p (net) convertible cumulative preference shares of 20p each	**5.8**
142,668,371 (1996: 135,746,223) ordinary shares of 10p each	**14.2**
	20.0

Authorised share capital

As a result of the consolidation, sub-division and redemption referred to below in relation to the conversion during the year of 21,166,324 convertible cumulative preference shares of 20p each, the number of authorised convertible cumulative preference decreased by 21,166,324, the number of authorised ordinary shares of 10p each increased by 6,227,132 and the number of authorised unclassified shares of 20p each increased by 18,052,758.

Notes to the financial statements

22) Share capital continued

Preference shares

The convertible cumulative preference shares are non-equity shares which carry an entitlement to a dividend at the rate of 6.375p (net) per share per annum. They may be converted into fully paid ordinary shares at the option of the shareholder on the basis of 1.471 ordinary shares for every £1 in nominal amount of convertible preference shares so converted on 31st May in each year.

Holders of convertible cumulative preference shares have one vote for every share held but only where a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the preference shareholders, or for the winding-up of the Company or for sanctioning the sale of the undertaking of the Company.

Preference shareholders have the right on a winding-up to elect to be treated as if their conversion rights had been exercisable and had been exercised immediately before the winding-up and to be paid in satisfaction of the amount due to them a sum equal to the amount to which they would have been entitled in such liquidation if they had been the holder of the ordinary shares to which they would have become entitled by virtue of such conversion together with any arrears of dividend.

Should this right to elect to be so treated not be exercised within the period specified in the Company's Articles of Association, preference shareholders would be entitled in priority to any payment to the holders of any other class of shares to the repayment of a sum equal to the nominal capital paid up on the convertible preference shares held by them together with a sum of 80p per convertible preference share together with any arrears of dividend.

Allotments during the year

On 23rd June 1997 a total of 21,166,324 convertible cumulative preference shares of 20p each, in respect of which conversion notices had been given pursuant to the Company's Articles of Association, were consolidated and subdivided into 6,227,132 ordinar shares of 10p each and 361,055,160 non voting deferred shares of 1p each. On 18th August 1997 the 361,055,160 1p non voting deferred shares were redeemed for 1p in aggregate.

In addition, during the year, 667,699 ordinary shares were allotted under the terms of the Airtours plc Share Option Scheme (198 for an aggregate cash consideration of £1,275,461 and 27,317 ordinary shares were allotted under the terms of the Airtours plc Savings-Related Share Option Scheme for an aggregate cash consideration of £75,236.

Contingent rights to the allotment of shares

Under the terms of the Airtours plc Savings Related Share Option Scheme options over 1,356,545 10p ordinary shares were granted to certain employees within the Group at £5.84 per share exercisable normally between 1st March 2002 and 31st August 2002.

At 30th September 1997 the following options to subscribe for ordinary shares of 10p each were outstanding:

Date of grant	Option price	Airtours plc Share Option Scheme (1986) Class 1	Airtours plc Share Option Scheme (1986) Class 2	Airtours SAYE Schem
5th July 1991	115.68p	–	81,080	
9th August 1993	373.92p	–	345,604	
9th August 1993	275.00p	–	–	647,48
5th August 1994	448.50p	215,000	990,000	
14th July 1995	407.00p	–	300,000	
16th July 1995	409.00p	–	50,000	
10th January 1997	584.00p	–	–	1,277,37

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 from the commencement date of the savings contract.

The exercise of Class 2 options is also dependent upon the percentage increase in earnings per share of the Company calculated ove 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 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 to quartile of those Companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index.

23) Reserves

The Group	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit a
At 1st October 1996	177.1	0.1	–	
Retained profit for the year	–	–	–	
Goodwill written off	–	–	–	
Premium on allotments during the year	1.3	–	–	
Transfer on redemption	–	3.6	–	
Exchange differences	–	–	–	
At 30th September 1997	**178.4**	**3.7**	–	

The Company	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit a
At 1st October 1996	177.1	0.1	51.2	
Retained profit for the year	–	–	–	
Transfer to profit and loss account	–	–	(51.2)	
Premium on allotments during the year	1.3	–	–	
Transfer on redemption	–	3.6	–	
At 30th September 1997	**178.4**	**3.7**	–	

The cumulative amount of goodwill arising from acquisitions in current and prior years which has been written off to Group res amounts to £195.6m (1996: £194.1m).

Of the Company's reserves £196.5m (1996: £96.2m) are regarded as distributable.

The amount previously shown as other reserves comprised a special reserve established in 1994 pursuant to an undertaking g to the High Court in connection with the Company's share premium account, which then amounted to £51.2m. As a result of t increases, subsequent to such cancellations in the paid-up share capital and share premium account of the Company, arising principally from the rights issue in 1994 and the subscription by Carnival Corporation in 1996, the Company is no longer requir maintain the special reserve and has accordingly transferred the credit balance on such reserve to the profit and loss account.

24) Reconciliation of movements in shareholders' funds	1997 £m
Profit for the financial year	**90.5**
Dividends	**(31.1)**
	59.4
Exchange differences	**(20.6)**
Issue of shares (net of expenses)	**1.3**
Goodwill written off to reserves	**(1.5)**
Net increase in shareholders' funds	**38.6**
Shareholders' funds at 1st October	**207.2**
Shareholders' funds at 30th September	**245.8**

25) Net cash inflow from operating activities	1997 £m
Operating profit	**98.9**
Depreciation charges	**32.3**
Profit on sale of tangible fixed assets	**(0.1)**
Loss on sale of investments	**0.1**
(Increase)/decrease in stocks	**(0.5)**
Increase in debtors	**(38.0)**
Increase in creditors	**55.4**
Increase/(decrease) in provisions	**7.8**
Net cash inflow from operating activities	**155.9**

The cash flow effect of the subsidiary undertaking acquired during the year is set out in note 28.

Notes to the financial statements

26) Reconciliation of net cash flow to movement in net funds	**1997 £m**	199 £
Increase/(decrease) in cash in the year	**107.5**	(26.
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(7.1)**	15.
Cash (inflow)/outflow from (decrease)/increase in liquid resources	**(113.1)**	157.
Changes in net debt resulting from cash flows	**(12.7)**	145.
Loans and finance leases acquired with subsidiary undertakings	**–**	(15.
Loss on sale of current asset investments	**(0.1)**	
Exchange differences	**(11.0)**	(5.
Movement in net funds in the year	**(23.8)**	125.
Net funds at 1st October	**348.6**	223.
Net funds at 30th September	**324.8**	348.

27) Analysis of net funds	At 1st October 1996 £m	Cash inflow/ (outflow) £m	Other non-cash changes £m	Exchange movements £m	**A 30th Septemb 199 £**
Cash at bank and in hand	111.6	107.5	–	(12.1)	**207.**
Term deposits	314.0	(114.4)	–	–	**199.**
Cash and deposits	425.6	(6.9)	–	(12.1)	**406.**
Debt due within one year	(35.2)	35.2	(0.6)	–	**(0.**
Debt due after one year	(43.8)	(42.8)	0.6	–	**(86.**
Finance leases	(7.7)	0.5	–	1.1	**(6.**
Current asset investments	9.7	1.3	(0.1)	–	**10.**
	348.6	(12.7)	(0.1)	(11.0)	**324.**

28) Effects of acquisitions

The subsidiary undertaking acquired during the year made the following contributions to Group cash flow:	**£**
Cash inflow from operating activities	**0.**
Returns on investment and servicing of finance	**0.**
Tax	**0.**
Increase in cash in the period	**0.**

29) Capital commitments	**The Group 1997 £m**	The Group 1996 £m	**The Company 1997 £m**	The Compa 19 £
Contracted but not provided in these financial statements	**1.2**	23.9	**1.1**	23

30) Contingent liabilities and guarantees

At 30th September 1997 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 the CAA and other similar bonds, leases for aircraft and spares and other guarantees amounting to £255.0m (1996: £180.2m). 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 certai of its subsidiary undertakings. No liabilities are expected to arise under these guarantees.

31) Pensions

Employees of the Company, Going Places Leisure Travel Limited and Airtours International Airways Limited participate in the Comp defined contribution pension scheme. The total pension charge for the year amounted to £2.5m (1996: £2.3m). 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 £3.7m (1996: £3.0m). No amounts were outstanding at the year end. In Sweden the pension are accrued based on amounts prescribed by the state and in Norway pension costs are accrued based on amounts prescribed b insurance companies with whom the obligation to provide pension benefits is contracted.

32) Leasing commitments

Operating lease payments which are due within one year are as follows:

The Group	**Land and buildings 1997 £m**	Land and buildings 1996 £m	**Aircraft and aircraft spares 1997 £m**	Aircraft and aircraft spares 1996 £m	**Other 1997 £m**
Expiring in one year or less	**6.6**	3.9	**8.6**	17.7	**0.3**
Expiring between one and five years	**12.0**	14.6	**29.2**	24.9	**2.3**
Expiring in five years or more	**16.4**	17.9	**37.2**	42.3	**5.2**
	35.0	36.4	**75.0**	84.9	**7.8**
The Company					
Expiring in one year or less	**–**	–	–	–	**0.1**
Expiring between one and five years	**0.2**	–	–	–	**1.0**
Expiring in five years or more	**0.2**	0.3	–	–	**5.2**
	0.4	0.3	**–**	–	**6.3**

33) Related party transactions

To finance the acquisition of the Costa shares held by the public, Il Ponte SpA (the Costa family's holding company) was loaned £56.9m by the Company. At 30th September 1997 an amount of £59.4m was outstanding. In addition, a further amount of £ is due to a subsidiary undertaking of the Company from Costa in respect of costs associated with the acquisition.

During the year Airtours Holidays and SLG purchased hotel accommodation totalling £1.1m from Tenerife Sol, an associated undertaking. At 30th September 1997 the oustanding balances payable to Tenerife Sol amounted to £0.1m. In addition Airtour Holidays purchased cabin accommodation from Carnival amounting to £2.3m during the year ended 30th September 1997 at date £0.3m remained outstanding.

During the year Going Places sold holidays operated by Costa, an associated undertaking, and Carnival to the value of £0.5m At 30th September 1997 the outstanding balance payable to Costa amounted to £0.1m. No amounts were outstanding to Car

In the year ended 30th September 1997 an amount of £0.2m has become due to the Company from Lake Eve Development respect of services supplied to the joint venture by certain employees of the Company. At 30th September 1997 an amount of was owed to the Company.

34) Post balance sheet events

On 14th October 1997 the Company acquired a property in Baia Feliz, Gran Canaria for a cash consideration of £11.0m. The property will be developed into a timeshare resort.

On 25th November 1997 the Company conditionally exercised its option to purchase the shareholdings of the main sharehol of Sun International NV ("Sun") amounting to approximately 80.7% of the issued capital of Sun at a price of BEF 4,900 per sh in cash. The exercise of the option is conditional upon Sun disposing of its interests in Sunparks International NV by no later tha 15th January 1998. The satisfaction of the condition will be followed by the launching of a mandatory public offer for the remaining 19.3% of the issued share capital.

Sun is the largest tour operator in Belgium and has tour operations in the UK, Holland and France.

Notes to the financial statements

35) Principal subsidiary and associated undertakings
At 30th September 1997 the Group's principal subsidiary and associated undertakings were:

	Country of incorporation and operation	Proportion held by parent Company (%)	Proportio held by th Group (%
Tour operators			
Airtours Holidays Limited	England	100	
Eurosites Limited	England	100	
Scandinavian Leisure Group AB	Sweden		10
Canadian Leisure Group Limited	Canada		10
Sunquest West Limited	Canada		10
Sunquest Holidays Inc	USA		10
SunTrips Inc	USA		10
Vingresor AB	Sweden		10
Always AB	Sweden		10
Vingreiser AS	Norway		10
Saga Solreiser AS	Norway		10
Vingrejser A/S	Denmark		10
Spies Rejser A/S	Denmark		10
Tjaereborg Reiser A/S	Denmark		10
Oy Simon Spies AB	Finland		10
Hotel operators			
Sunwing AB	Sweden		10
Hoteles Sunwing SA	Spain		10
Sunwing Hotels Hellas SA	Greece		10
Sunwing Hotels (Cyprus) Limited	Cyprus		10
Sunwing Hotel (Gambia) Limited	Gambia		10
Tenerife Sol SA	Spain		5
Cruise operators			
Costa Crociere SpA	Italy		4
Sun Cruises Limited	England	100	
Airlines			
Airtours International Airways Limited	England		10
Premiair A/S	Denmark		10
Travel retailers			
Going Places Leisure Travel Limited	England		10
Late Escapes Limited	England		10
Agency companies			
Astral Hellas SA	Greece		7
Eurosites A/S	Denmark		10
Eurosites GmbH	Germany		10
Eurosites BV	Holland		10
Eurosites Vacances SA	France		10
Viagens Astral SA	Portugal		10
Viajes Astral SA	Spain		10
Viajes Astral Canarias SA	Spain		7
Vacation Ownership			
Anfinpan SL	Spain		10
Lake Eve Development	USA		5
Insurance company			
White Horse Insurance Limited	Guernsey		10
Investment and/or holding companies			
Airtours Finance Limited	Guernsey		10
Blue Sea Investments Limited	England	100	
Blue Sea (Overseas) Investments Limited	England		10
The BTN Finance Company	England		5
Canadian Leisure Group Inc	Canada		10
Carousel Holidays Limited	England	100	
Il Ponte SpA	Italy	50	
Parkway Holdings BV	Holland		10
Scandinavian Leisure Group Holdings AB	Sweden		10
Scandinavian Leisure Group Leasing A/S	Norway		10

Shareholder information

Analysis of ordinary shareholders

At 30th September 1997 there were 3,313 shareholders registered compared with 2,636 at 30th September 1996.

Category	Number of holders	C sha
Individuals	2,931	23,45
Carnival (UK) Limited	1	40,00
Life/Insurance funds	33	16,26
Pension funds	129	25,68
Unit trusts	59	9,84
Investment trusts	7	1,28
Overseas funds	145	25,57
Other	8	57
	3,313	142,66

Preference shares

The 28,732,688 (1996: 49,899,012) convertible cumulative preference shares are held by 430 (1996: 548) shareholders, who re dividends in preference to the holders of ordinary shares at a rate of 6.375p (net) per annum.

Financial calendar

First quarter results announced	18th Februar
Half yearly preference dividend paid	1st Apri
Interim results announced	14th May
Interim ordinary dividend paid	24th June
Third quarter results announced	13th Augus
Half yearly preference dividend paid	1st Octobe
Final results announced	10th Decembe
Record date for final ordinary dividend	16th Januar
Annual general meeting	22nd Januar
Final ordinary dividend payable	16th Februar

Shareholders' benefits

Concessionary discounts

Individual registered holders of ordinary shares in the Company are eligible for concessionary discounts of 10% against the publis price of any "Airtours" holiday (including the Tradewinds, Aspro, Sun Cruises and EuroSites brochures). In addition, provided boo are made at least 28 days prior to departure, certain other offers exclusive to shareholders may apply. To obtain information on th other offers and to obtain the discount, which cannot be taken in conjunction with any other offer or promotion, the holiday boo should be made through our shareholders' holiday advice telephone line on 01706 232827. Shareholders will need to quote thei name and shareholder number as shown on their share certificate. There is no minimum shareholding requirement.

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 manne For further details contact Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE or for a brochure telepho 0171 601 0101.

Personal equity plans (PEPs)

General and Single Company PEPs in the ordinary shares of the Company are available for investors wishing to take advantage preferential tax treatment in relation to their shareholdings. For further details contact The Plan Manager, Bradford & Bingley (P Limited, PO Box 50, Main Street, Bingley, West Yorkshire BD16 2BR.

Five year review

	1997 £m	1996 £m	1995 £m	1994 £m	199 £
Profit and loss account					
Turnover	**2,174.3**	1,717.9	1,317.8	971.7	615.
Profit on ordinary activities before tax	**120.3**	86.8	59.4	71.3	43.
Tax on profit on ordinary activities	**29.6**	21.7	16.4	21.7	16.
Profit for the financial year	**90.5**	64.9	43.0	49.4	27.
Dividends	**31.1**	24.9	19.3	16.9	10.
Profit retained	**59.4**	40.0	23.7	32.5	17.
Balance sheet					
Tangible fixed assets	**267.8**	256.4	197.9	109.1	38.
Investments	**63.0**	16.2	9.7	7.5	
Cash and deposits	**406.6**	425.6	304.5	291.9	220.
Stocks	**6.4**	6.8	3.6	2.7	
Debtors	**331.7**	235.9	168.6	163.5	105.
Creditors	**748.0**	670.0	514.7	402.0	281.
Provisions for liabilities and charges	**81.2**	63.4	50.7	35.6	15.
Net assets	**246.3**	207.5	118.9	137.2	67.
Statistics					
Basic eps	**63.82p**	49.23p	34.94p	46.17p	27.4
Fully diluted eps	**59.04p**	45.63p	32.76p	41.79p	26.2
Dividends per ordinary share	**20.00p**	16.00p	14.00p	12.00p	8.8
Net assets per ordinary share	**172.62p**	152.86p	103.10p	120.60p	71.3
Ratios					
Dividend cover	**3.19**	3.08	2.50	3.85	3.1

Note: The figures shown for 1993 have been restated to take account of the Rights Issue to existing shareholders in 1994.