Airtours plc
Annual Report &
Accounts 2001

MyTravel
—a whole new way...

12.3.02 423

Highlights

Contents

We aim to be the best travel company in the world to travel with, to work for and to invest in...

	2001	2000	Growth
Group turnover† (£m)	**5,089.5**	4,434.8	**15%**
Operating profit* (£m)	**132.2**	83.5	**58%**
Profit before tax* (£m)	**129.8**	76.8	**69%**
Earnings per share, basic* (p)	**16.18**	9.12	**77%**
Earnings per share, diluted* (p)	**16.11**	10.69	**51%**
Dividend per share (p)	**9.50**	9.00	**6%**

Operating profit* **£m**

01	132.2
00	83.5
99	131.5
98	124.5
97	107.7

† Group and share of Joint ventures' turnover.
* Group and share of Joint ventures and Associates before goodwill and exceptional items.

Chairman's statement

David Crossland,
Chairman

The year to 30 September 2001 has been very successful for the Airtours Group and I am very pleased to report that it was not only a year of recovery but also a year of record profits. There were very strong performances from our market leading businesses in the UK and Scandinavia and, in North America, TSI improved its underlying profits by 40%. We demonstrated our ability to turn around underperforming areas of our operations. Progress in Germany has been particularly impressive, with underlying results improved by 77%, while our North American charter business returned to profitability.

Our financial year ended on an uncertain note for the world economy and for our industry, following the tragic events of September 11 in the United States. We have commissioned independent research in all our major European markets which indicates that the vast majority of our customers will take a holiday next summer. This is supported by our European load factors for October which were 92%, only a 1% reduction from last year's levels. However, we have seen a deferral of booking decisions for summer 2002, and have accordingly taken the short term measures we consider necessary. We are well placed to respond to this temporary change in customer buying patterns.

Basic earnings per share before exceptional items and goodwill was 16.18p in 2001 compared with 9.12p in 2000, an increase of 77%. Diluted earnings per share on the same basis was 16.11p in 2001, compared with 10.69p in 2000.

The Board is recommending a final dividend of 7.50p per share, which together with the interim dividend of 2.00p, gives a total dividend for the year of 9.50p, an increase of 6% on last year.

The work that has been done throughout the Group in the past twelve months has ensured that we are currently as well placed as possible to weather the current conditions and to seize potential opportunities as they arise. The streamlining of UK back offices, reorganisation of the Scandinavian and North American operations and of course the terrific progress that has been made in Germany have all served to reduce overhead costs, simplify organisational structures and improve coordination within leisure groups and across the Group as a whole.

Other actions undertaken prior to September 11 such as the release of capital from our Spanish hotels by the sale and leaseback announced in March 2001 and the raising of \$100m of long-term debt on the US Private Placement market in July have further enhanced our financial strength.

This Group has always been managed to deliver the maximum return to our shareholders from the vertical integration of our operations whilst retaining significant flexibility over our flying and accommodation commitments. It is in times like these that the benefit of these policies becomes clear and we will continue to adopt a prudent approach to our capacity management. At this point we have cut capacities in all our markets for all seasons on sale. We will continue to monitor the situation closely but our inherent flexibility means we are best placed to adjust capacity quickly according to the development of each market.

The management within this Group is the strongest in the industry and has this year not only delivered an excellent financial result but has pulled together as a team to take advantage of the opportunities ahead. For many of our staff it has been a year of significant change and I would like to thank them all for their energy, enthusiasm and commitment.

Following the success of last year, I am delighted to announce the launch of MyTravel, a new way of serving our customers and a new name for the Group. MyTravel encompasses all aspects of our distribution business whether by retail, telephone or electronic media. We will use our other existing businesses, including aviation and cruises, with their international exposure, to promote the MyTravel name. Our tour operating and accommodation businesses will retain their strong and well established brand identities and will proudly proclaim that they are "part of MyTravel Group".

The Airtours name has served us well and will continue to

...this is a growth industry and... we are well placed for future profitable growth

do so as our largest tour operating brand, Airtours Holidays, but there are enormous benefits from aligning the plc name with our new distribution brand. By adopting that name we will be able to place it on each of the 115 million brochures we produce each year; on our 51 aircraft and in the 200 airports they pass through; on each of our 1,000 retail shops and on every single piece of stationery we use. A resolution to adopt the new name, MyTravel Group plc, will be put before our shareholders at the next Annual General Meeting and I am sure they will join me in supporting it.

Although the outlook for the leisure travel industry this year is uncertain, and in the light of our record performance, growth this year will be challenging. But this is a growth industry and with our financial strength and operational flexibility, the benefits from our efficiency programmes and an exciting new name, we are well placed for future profitable growth.

	Turnover **£m** †
01	5,089.5
00	4,434.8
99	3,771.3
98	3,054.9
97	2,309.4

† Group and share of joint ventures

	Dividend per share **pence**
01	9.50
00	9.00
99	8.25
98	7.50
97	6.67

Chief Executive's review

Tim Byrne,
Chief Executive

This has been a year of great change and financial success for the Group. The consolidation of our major UK tour operator and retailers into the single site in Rochdale has been implemented successfully and the reorganisation of our Scandinavian and Nordic business from a brand based to a country based organisation was completed early in 2001. The most dramatic changes have been seen within our German business. The new management team have continued the work begun when we took control at the end of the last financial year. The complete reorganisation they have undertaken has resulted in a significant reduction in our German workforce as efficiencies were identified. Further reductions have arisen from the closure of the airline in November, as planned. The consolidation of our North American Leisure Group and its charter operations within the TSI organisation under the name Airtours North America has also been successfully completed.

All of these reorganisations and efficiency improvements combine to leave us leaner and more focused as we face the future.

Results
Profit before tax, e-commerce costs, exceptional items and goodwill amortisation rose by £57.6m to £145.0m. This reflects a strong performance from the UK, the best year ever in Scandinavia and an excellent performance from TSI during its first full year in the Group. The turnaround in our North American charter operations and the significant progress made in Germany have combined to produce an excellent financial result for the Group.

Business Performance

United Kingdom
During the year we completed a major phase of our reorganisation, with the consolidation onto a single site in Rochdale of our principal tour operator and retailers' back offices and the introduction of common back office systems. We are now looking to extend this across our other UK operations. We started to use the MyTravel brand by consolidating our ticket offices in UK airports and we are in the process of doing the same overseas, enabling further reductions in costs.

We have also begun work on the introduction of a new common reservation system across all our charter tour operators, which will reduce costs and improve our yield management, thereby increasing our margins. In March we announced the closure of 120 poorly performing high street agencies as we rebalanced the mix of our distribution channels.

We continue to lead innovation in product development with the introduction of the Holiday Plus concept for summer 2002 giving our customers the choice of high levels of included options or no frills low price packages and seats. This has been really well received by our customers.

Given our confidence in the future we have confirmed a further four new aircraft orders since 11 September. The new aircraft will lower even further our seat costs, improve on time performance and be more environmentally friendly.

Scandinavia and The Netherlands
I am delighted to report record profits despite a difficult lates market in Sweden and overcapacity in Denmark. The result was enhanced by excellent on time performance from Premiair and the highest ever customer satisfaction scores.

The reorganisation to a country based management structure was completed earlier this year and contributed to the fact that, whilst others in these markets are struggling, our team produced a record performance. The new structure, together with the rationalisation of our distribution network, including shop closures and the creation of some MyTravel stores, leave us well placed going forward.

The acquisition this year of Gate Eleven, the scheduled-based tour operator we bought in Denmark, strengthens our position in this market, while Itaka, our new Polish tour operator, adds volume and provides significant synergy opportunities with our existing Polish operation.

...underlying performance of German business improved by 77%... charter operations in Canada and the US returned to profitability...

Germany
The largest and most pervasive reorganisation within the Group has been taking place this year within our German business. Every aspect of that operation has been taken apart, examined and rebuilt. We were unable to have much effect on the business last winter but were able to have a major effect in summer. As a result, the underlying performance of the business has improved by 77%. The business as it stands now has dramatically reduced its commitments and increased its operational flexibility. A new charter system has been successfully introduced for this winter which will generate the information and provide the control needed to continue to improve performance. We have also introduced Oracle Financials which runs from the new UK consolidated back office in Rochdale.

The closure of FlyFTi, while creating an exceptional charge during the year, will result in significant cost savings going forward and again increase the flexibility of the operation.

North America
As predicted, our charter operations in Canada and the US returned to profitability this year, following significant reorganisation since January 2000. This business is now firmly part of Airtours North America under Peter McHugh and, following the reductions in its cost base and the contraction in market capacity following the failure of a competitor, is well placed for further profitable growth. The result from TSI showed a tremendous improvement on the comparative prior year period. In spite of the economic slowdown in the US and the concerns over foot and mouth disease in the UK, revenues increased, margins increased and costs were reduced. In particular, our major businesses of cruise distribution, AutoEurope and Alumni Holidays all achieved record profits.

Outlook

The outlook for the leisure travel industry this year is uncertain, and in the light of our record performance, growth this year will be challenging, although load factors since 11 September show that our customers remain keen to travel.

Bookings and load factors

Our load factors in Europe in October were 92%, only 1% below last year, and independent research we have carried out in our major European markets supports our view that the majority of our customers will take a holiday next summer, even though many have deferred the decision to book. This pattern is reflected in our current booking levels for each season.

Overall, charter bookings for winter 2001/02 are at 85% of last year's level and charter bookings for summer 2002 are at 83%. Capacity for winter 2001/02 is at 85% of the prior year level while capacity for summer 2002 is at 86%. Selling prices for both winter 2001/02 and for summer 2002 are 1% ahead.

Bookings in our UK charter businesses are at 93% of last year's level for winter 2001/02 and 88% for summer 2002. Capacity for winter 2001/02 is at 85% of last year, while for summer 2002 it has been cut to 87%. Average selling prices are at 98% of last year's level for winter 2001/02 and 99% for summer 2002.

In Scandinavia and Holland, bookings for winter 2001/02 are at 83% of last year's position with capacity at 83% of last year. Bookings for summer 2002 are currently at 52% reflecting the relatively recent launch of the summer brochures for which capacity stands at 85% of the prior year. Average selling prices are 6% ahead for winter 2001/02 and 8% ahead for summer 2002.

In Germany, bookings are at 29% of prior year mainly as a result of the reduced programme on sale for winter 2001/02. Brochures for summer 2002 will not go on sale until December. Average selling prices for winter 2001/02 are 30% ahead of the prior year.

Our North American charter businesses are reporting bookings at 66% of prior year for winter 2001/02 with capacity at 92%. These businesses have not recovered as quickly as those in our other markets following 11 September. However, since the recent restructuring in this market after the demise of Canada 3000, bookings have been running considerably ahead of last year. Brochures for summer 2002 will not be on sale until February. Average selling prices for winter 2001/02 are 2% ahead of the prior year.

Bookings in our market leading leisure travel business in the USA, in particular cruise distribution and AutoEurope, have recovered strongly in recent weeks. Bookings in cruise distribution are currently some 150% of last year's level and bookings at AutoEurope are at 78% of last year's level.

The inbound US market is particularly important to our German modular operation within FTi and, whilst we expect its trading to continue to improve, the current disruption in this market is likely to delay FTi's return to profitability.

Since 11 September we have taken prudent measures in relation to both capacity on sale in our major markets and the cost base of the business.

Operational flexibility

At Airtours we have always deliberately structured ourselves such that we retain significant operational flexibility. In respect of summer 2002, our third party flying programmes have yet to be finalised and few hotel deposits have been paid. Our business model, as illustrated below, ensures that we have the inherent flexibility to deal with capacity reductions. The deliberate undersizing of our aircraft fleet compared with our total tour operating passengers and the even smaller proportion of our passengers staying in our own accommodation, or in hotels to which we are fully committed, ensures that we can reduce capacity in response to market conditions without significant exposure to the costs of under-utilised assets. We have cut winter capacity by 15% and reduced capacity for summer 2002 by 14% but we retain the ability to adjust capacity as circumstances require.

Our inherent flexibility

Distribution 120%

Tour operating 100%

Airline 75%

Hotels 15%

Cruise 2%

Financial strength

The Group has substantial cash resources, bank facilities and committed bonding facilities. These resources provide the financial strength needed to support the business in the future.

Cost reduction

In addition to our immediate actions to reduce capacity for future seasons, we have reduced discretionary expenditure. This includes non-essential capital expenditure, which has been curtailed. We have also had to make some difficult decisions regarding redundancies throughout the Group. These have now been implemented and resulted in a reduction in our workforce of 1,600. This is in addition to the 1,200 positions that have been removed during the last year as a result of the efficiency programmes and reorganisations implemented prior to 11 September.

Launching MyTravel brand... a whole new way of buying, selling and delivering leisure travel

MyTravel
On 27 November we unveiled our plans for the future of the Group under the new name, MyTravel Group plc. These plans were obviously underway before the events of 11 September and we have thought very carefully before continuing with them in the current environment. However, we are convinced that this is the right way forward for the Group and can be achieved by diverting existing expenditure, with no net incremental cost.

MyTravel is a whole new way of buying, selling and delivering leisure travel, where establishing and maintaining a relationship with each of our 15 million customers worldwide is at the heart of everything we do.

Through extensive customer research and adaptation of other successful high street retail models, we have developed a completely new experience for our retail shop customers. Across the UK, all our stores will be transformed under the MyTravel name to create a more interesting and exciting retail environment for our customers to buy their holidays. In Scandinavia, a new, innovative customer proposition will see MyTravel offering the first retail environment where a range of tour operator brands will be available under one roof.

Through investment in leading edge technology, we have launched, and are further developing, a multi-channel distribution capability with MyTravel.com in the UK, Scandinavia and America. On the UK site alone we have over 5 million holidays, 15,000 images, 2,500 editorial articles and 300 virtual tours.

By re-branding our successful Airtours International and Premiair fleets as MyTravel Airways, we will create a single European fleet of 51 aircraft that will fly our new name to numerous destinations worldwide. The full transition to the MyTravel livery will be phased in as our new aircraft rollover is completed. This will ensure that MyTravel will be seen not only by millions of our own passengers flying to worldwide destinations, but also by the many millions of other international travellers using airports around the world each year.

In launching the MyTravel brand across the Group, we are promoting one of the world's largest leisure travel businesses with operations touching the four corners of the world. We have some of the strongest brands in travel, many of which have become household names, backed up with the best team in the industry. Going forward, our customers will be at the heart of everything we do and we will provide a personalised, accessible and quality service within an environment that spans every aspect of travel. The financial benefits of higher customer loyalty and retention are considerable to our Group with its 15 million customers.

Operational and financial review

David Jardine,
Finance Director

Group results

Turnover, including our share from Joint ventures, increased by 15% to £5,089.5m in the year compared with £4,434.8m last year. The increase of £654.7m comprises £442.1m from continuing operations, £494.6m from acquisitions made in 2000, and £22.4m from aquisitions made during this financial year, offset by the reduction in turnover in the businesses reported as discontinued last year of £304.4m.

Operating profit before exceptional items and goodwill and after e-commerce costs increased by 58% to £132.2m, compared with £83.5m in the prior year. Of the £48.7m improvement, £36.4m is attributable to continuing operations, £3.6m to acquisitions made in the financial year, and £25.3m to the full year impact of acquisitions made in 2000. This has been partially offset, however, by the impact of discontinued operations in 2000 of £16.6m. The results are stated after taking into account the direct costs to the Group and lost contribution as a result of the 11 September 2001 terrorist attacks in the US, which amounted to £11.4m. Also included in the results are e-commerce costs of £15.2m (2000: £10.6m). The improvement year on year in operating profit excluding e-commerce costs and the impact of 11 September was some £64.7m, or 69%.

Net interest payable in the year declined to £2.4m (2000: £6.7m), resulting in profit before tax, exceptional items and goodwill of £129.8m (2000: £76.8m). This represents an improvement of £53.0m, or 69%.

Net exceptional costs in the year were £16.7m (2000: profit of £147.9m). The exceptional costs comprise: shop closure and reorganisation costs in the UK and Scandinavia of £20.7m and £3.6m respectively; £7.9m additional costs incurred as part of the fundamental reorganisation of the UK back office operations; £11.2m of fundamental reorganisation costs in Germany following our acquisition of the remaining shares in September 2000; and costs associated with terminated operations amounting to £3.9m. These costs have been partially offset by an exceptional profit on the sale and leaseback of part of our hotel portfolio of £19.9m; net income of £7.8m as a result of the settlement of a contractual dispute following the termination of an outsourcing agreement in June 2000; and other profit on sale of fixed assets of £2.9m, largely comprising engine sales.

Goodwill amortisation in the year amounted to £31.8m (2000: £13.3m). The increase year on year largely reflects the full year impact of TSI, which was acquired in March 2000, together with a full year's charge for the additional shares in FTi, acquired in September 2000.

Taxation

The Group's taxation charge for the year of £30.3m represents 37.3% of profit before tax. The rate, excluding exceptional items and goodwill, is 23.3%. The rate is expected to remain below statutory rates for the foreseeable future.

Earnings and dividends

Basic earnings per share before exceptional items and goodwill increased by 77% to 16.18p compared with 9.12p in 2000. Diluted earnings per share on the same basis was 16.11p, compared with 10.69p in 2000. Basic earnings per share after exceptional items and goodwill was 6.28p compared with 35.98p in 2000. The diluted earnings per share figures on the same basis were 6.26p and 34.10p respectively.

The Board is recommending a final dividend of 7.50p per ordinary share, which together with the interim dividend of 2.00p, gives a total dividend for the year of 9.50p, an increase of 6% on last year.

Business developments

This year has been a year of consolidation and reorganisation within the Airtours Group, rather than one of significant investment. We have, however, invested a total of £63.1m in the acquisition of new businesses.

During the year we acquired several small retail businesses in North America in line with our strategy of securing distribution for our tour operators in Canada. The total consideration for these retail acquisitions is £23.7m. In March 2001 we acquired for £3.1m WorldChoiceTravel.com, Inc., which even in the current climate is taking more than double the number of bookings it was last year. WCT is a fast growing travel services business providing information and booking technology to enable consumers to make hotel reservations worldwide through the internet. On 23 July 2001 we acquired for £1.0m DriveAway Holidays Pty Limited, Australia's leading provider of car rental and car leasing services to the outbound leisure travel market; and on 6 August 2001 we acquired for £4.9m the Kemwel car rental and leasing brand in North America. Both of these acquisitions complement our AutoEurope operations within TSI's portfolio of specialist leisure travel businesses. AutoEurope has also recently announced the start up of operations in the UK. AutoEurope UK will offer car hire to travel agents and customers, leveraging off its operations and cost base in the US.

Within our Other European operations we acquired, in November 2000, Gate Eleven, a scheduled-based Danish tour operator carrying approximately 40,000 passengers a year. This acquisition, together with the expansion of our scheduled operations in The Netherlands, strengthens our position in this important segment of the market. On 4 July 2001 we also acquired Itaka, a tour operator in Poland carrying approximately 60,000 passengers. We are currently integrating our existing operations in Poland into Itaka to drive out synergies in the future. The total consideration for both acquisitions amounted to £2.9m.

On 29 March 2001 we announced the sale and leaseback, for a 15 year period, of seven of our Spanish hotels, two of which are operated by our joint venture, Hotetur. This resulted in an exceptional profit for the Group of £19.9m and released cash in the Group of £44.5m for investment elsewhere. On 7 June 2001 we entered into a strategic alliance and acquired, for a total consideration of £27.2m, a 19.99% stake in Aqua Sol, a leading hotel group in the Eastern Mediterranean which is quoted on the Cyprus Stock Exchange. On 18 September 2001 we also sold the Bellevue hotel to Hotetur, releasing £19.6m of cash in the period, with a further release of £18.6m in November 2001. These transactions strengthen our hotel partnerships, ensuring that we retain long-term access to quality accommodation both in the Eastern and Western Mediterranean.

Cash balances and cash flow

Cash and deposits at 30 September 2001 were £378.6m compared with £793.3m last year end. Cash balances reduced due to the repayment of debt totalling some £302.1m, including £25.0m of our Convertible Bonds. Excluding these flows, the major cash inflows in the Group during the year included £64.0m from sale and leaseback transactions; £19.6m from the sale of the Bellevue hotel complex to Hotetur; and £66.5m of debt raised in the US Private Placement market. Cash outflows in the period mainly comprised £60.1m on the acquisition of new businesses; £126.2m on the purchase of fixed assets; and £45.1m for equity dividends.

The working capital outflow in the period of £151.0m relates largely to the effects of the structural changes we made to our business last year, principally, the closure of our operations in Belgium and France and the significant downsizing of FTi.

Capital investment

During the year, the Group invested £128.1m in capital expenditure compared with £224.1m in 2000. The main components of the expenditure were £33.6m on aircraft and aircraft spares; £45.3m on computer systems and equipment; and £27.8m on land and buildings, mainly relating to the refurbishment of hotels and shops.

Risk management

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

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

The main financial risks faced by the Group are exchange rate, interest rate, fuel price and liquidity risk. Treasury activities are managed on a day-to-day basis by Group Treasury. The Board approves all the financial instruments used by the Group. Group Treasury reports regularly to members of the Board and is subject to periodic independent reviews and audits, both internally and externally.

I Foreign Currency Risk

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

The Group's net assets in currencies other than sterling are hedged to reduce the effect of currency movements on the Group's sterling balance sheet. The Group's policy is to minimise this effect primarily through matching the currency assets with centrally held currency liabilities by using currency foreign exchange contracts and debt. The objective is to maintain a balanced portfolio of net assets by currency. Details of the currency analysis of financial assets and liabilities can be seen in note 20. In addition, the Group selectively hedges its expected future trading cash flows up to 12 months ahead, primarily using forward contracts.

II Interest Rate Risk
The Group's exposure to interest rate fluctuations on its borrowings, deposits, and cruise ship, hotel and aircraft related financing is managed by using interest rate swaps, interest rate options (caps and collars) and forward rate agreements. The proportion of gross debt that is fixed or hedged is higher in the near term than in the longer term, with the aim of reducing the volatility of short-term interest costs whilst maintaining the opportunity to benefit from movements in longer-term rates. At the year end, after taking into account interest rate swaps and forward rate agreements, the proportion of the Group's gross borrowings at fixed and hedged rates was 93% at a blended rate of 6.2%. The gross cash position was fully floating. Details of the interest rate analysis can be seen in note 20.

III Fuel Risk
As with the foreign currency transactional exposures, fuel exposures relate to flying and cruise ship costs for the seasons on sale. Group policy requires subsidiaries to hedge all fuel exposures with Group Treasury at the time of commitment. Hedging is put in place using fuel commodity swaps.

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

On 31 July 2001, the Group raised US$100m in the US Private Placement debt market for an average term of 7.3 years at an average coupon of 7.84%. The proceeds have been used to refinance existing short-term debt.

As detailed in note 20 only 6.8% of the Group's total borrowings at the year end will mature in the next 12 months, 81.4% will mature in more than one year but less than five, and 11.8% will mature in more than five years.

Segmental analysis

UK – continuing

Turnover from UK continuing operations in the year increased by £348.4m, or 15%, from £2,323.8m to £2,672.2m, largely reflecting the increased charter tour programmes in summer, particularly at Direct Holidays and Panorama. Operating profit before exceptional items and goodwill amounted to £92.4m (2000: £97.2m). The current year figure, however, includes the impact of the 11 September terrorist attacks which resulted in a cost of £7.4m. E-commerce costs of £8.4m were also incurred in the period (2000: £6.4m) and are included in the figures above. Excluding both of these items, the underlying improvement year on year in operating profit was £4.6m. This improvement reflects the increased size and improved margins of our charter tour operators' summer programmes together with cost savings following the restructuring activity undertaken. These have been partially offset by £4.4m of seasonal losses from businesses acquired during last year, in particular a significant number of hotels in the Globales group which are closed during the winter season.

Net interest receivable in the year amounted to £24.0m (2000: £3.9m), resulting in profit before tax, exceptional items and goodwill of £116.4m (2000: £101.1m). The increase in interest income largely reflects the interest received on the proceeds of the sale of our share in Costa Crociere.

Net exceptional profit in the period amounted to £0.2m (2000: £182.7m). In March 2001 we completed the sale and leaseback of five of our hotels, realising a profit of £19.9m. In addition, during the year we received £7.8m of income following the termination of an outsourcing agreement and £3.0m from profits on the sale of other fixed assets.

These profits were offset by £20.7m of costs arising from the closure of 120 of our poorer performing high street outlets, together with other reorganisations in the UK; £7.9m of further costs incurred in the year as we completed the relocation of our principal back office operations to an efficient single site in Rochdale; and £1.9m incurred in the continued downsizing and termination of our Vacation Ownership division.

Goodwill amortisation of £6.0m was charged in the year (2000: £3.9m).

Other Europe – continuing

This segment now contains the results of our Scandinavian Leisure Group, Dutch Leisure Group and FTi, following the acquisition of the remaining shares in September 2000. To assist in understanding our performance, however, we have reported FTi's results separately from the rest of the Other Europe segment.

Other Europe – Scandinavia and The Netherlands

Total turnover in the year amounted to £1,018.3m (2000: £926.3m), an increase of 10%, or £92.0m, over the prior year. Operating profit before exceptional items and goodwill was £33.9m compared with £10.3m in the previous year; an increase of £23.6m. The increase is attributable to improved margins in our tour operations, together with improved efficiency in our Scandinavian airline. The impact of 11 September, which has been included within operating profit, is £1.2m in the year; e-commerce costs of £5.0m were also incurred (2000: £3.3m). Net interest receivable in the year amounted to £1.8m (2000: £10.0m), resulting in a profit before tax, exceptional items and goodwill of £35.7m (2000: £20.3m).

Net exceptional costs in the year were £3.6m (2000: profit of £1.3m), largely reflecting the closure costs of 23 shops within the Scandinavian businesses. Goodwill amortisation in the period amounted to £0.9m (2000: £0.9m).

Other Europe – FTi
Turnover recorded by the Group from our FTi businesses increased in the year to £684.4m (2000: £386.7m, of which £293.9m was included in Joint ventures). This increase reflects our increased ownership of FTi, offset by the reduction in capacity implemented following acquisition of the remaining shares. Operating loss before exceptional items and goodwill amounted to £25.5m (2000: £44.6m, of which £35.4m was included within Joint ventures). The underlying operating result of FTi, when taking account of our 35.92% shareholding for 11 months of last year, and the income from the distribution businesses disclosed within Associates, has improved by £75.8m, or 76%. The improvement is a result of the actions taken to refocus the business, rationalise programmes and improve efficiency. The result also takes account of £0.6m of costs suffered following the 11 September terrorist attacks and £1.0m of e-commerce costs (2000: £0.2m included within Joint ventures).

Net interest payable in the year amounted to £9.1m (2000: £3.0m, of which £2.9m was included within Joint ventures). The increase largely reflects our increased shareholding year on year. The loss before tax, exceptional items and goodwill was £34.6m (2000: £47.6m, of which £38.3m was included in Joint ventures).

Net exceptional costs in the year were £11.3m (2000: £14.3m, of which £11.3m was included in Joint ventures). The costs incurred this year largely reflect the reorganisation and rationalisation of our German operations, where we have fundamentally changed the product offering in line with the needs of the market and refocused the business on more profitable customer segments. This included the closure of our in-house airline, FlyFTi, which was announced in May 2001, and a radical reorganisation of the back office and support functions in place at FTi. Goodwill amortised in the year amounted to £6.7m (2000: £1.0m).

Other Europe – acquisitions
Gate Eleven and Itaka, which were acquired in the year, contributed £14.0m to turnover and £0.8m to operating profit before exceptional items and goodwill. This is in line with our expectations on acquisition.

Other Europe – discontinued
The Other Europe – discontinued segment reflects our operations in Belgium and France which were closed down at the end of the summer 2000 season. Exceptional costs of £2.0m (2000: £19.5m) were incurred in the year relating to the closure of these operations.

North America – continuing
We have successfully integrated our North American charter operation (NALG) and TSI in line with our plan to drive out efficiencies. However, in order to assist in a better understanding of the performance of TSI and the turnaround in NALG, we have reported the two businesses separately this year, for the last time.

North America – NALG
Turnover from our North American Leisure Group increased in the year to £454.5m (2000: £383.8m). Operating profit before exceptional items and goodwill amounted to £2.4m (2000: loss of £16.3m). The successful turnaround of this division is largely attributable to the programme rationalisation and cost restructuring undertaken last year. Also included in the results are £0.9m of costs following the 11 September 2001 terrorist attacks.

Net interest payable in the period amounted to £0.4m (2000: interest receivable of £0.4m), resulting in profit before tax, exceptional items and goodwill of £2.0m (2000: loss of £15.9m). Goodwill amortisation was £1.4m (2000: £0.8m).

North America – TSI
TSI continues to perform well, contributing £187.3m to turnover during the year (2000: £79.0m); the increase over the prior year largely reflecting a full year of ownership. Operating profit before exceptional items and goodwill, but after charging £1.3m as a result of the US attacks and £0.8m of e-commerce costs (2000: £0.6m), was £21.3m (2000: £18.2m). When the six month period prior to acquisition is included, this reflects an improvement of some 40% year on year, despite a softening in demand as a result of the uncertainty in the US economy which has been exacerbated by the terrorist attacks.

Net interest payable amounted to £18.6m (2000: £10.1m), the increase largely reflecting the full year of ownership. Profit before tax, exceptional items and goodwill was £2.7m (2000: £8.1m). Goodwill amortisation amounted to £14.1m (2000: £6.7m).

North America – acquisitions
Our North American acquisitions in the year, consisting of distribution businesses in Canada, and WorldChoiceTravel.com, Inc., DriveAway Holidays Pty Limited in Australia and Kemwel in the US, are currently being integrated into our existing operations and are performing in line with expectations. During the year they contributed £8.4m to turnover and £1.0m to operating profit before exceptional items and goodwill. Goodwill amortisation was £1.0m.

Joint ventures and Associates
Following the disposal of our interest in Costa Crociere and the acquisition of the remaining shares in FTi in September 2000, Joint ventures and Associates now consist of Tenerife Sol, Hotetur, our MyTravel credit card joint venture and certain distribution businesses in FTi, together with our newly acquired associate, Aqua Sol. In order to assist in understanding, the comparative figures for 2000 stated below are after excluding Costa Crociere and the results of FTi included in Joint ventures last year.

During the period Joint ventures and Associates contributed £5.9m to operating profit before exceptional items and goodwill (2000: £2.1m). Goodwill amortisation was £1.7m (2000: £nil).

Board of Directors

1 David Crossland, 54,
Chairman ›▪
David has nearly 40 years' experience in the travel industry. He founded the Group in 1972 and has led it through its development, from the establishment of its first tour operator, Airtours Holidays, through flotation on the London Stock Exchange in 1987, the launch of its first in-house airline, Airtours International and expansion into Europe and North America in the 1990's.

2 Tim Byrne, 42,
Chief Executive
Tim joined the Group in 1993 as Group Financial Controller and joined the Board in 1997 as Group Finance Director. In March 2000 he was appointed Managing Director before becoming Chief Executive in November 2000. He has previously held senior management positions in the Granada Group in hotel, theme park and television businesses.

3 David Jardine, 39,
Group Finance Director
David joined the Group in March 2000. He was previously a partner in Arthur Andersen and had worked closely with the Group for a number of years on transactions such as the acquisition of the Scandinavian and North American Leisure Groups. He trained as a Chartered Accountant with Arthur Andersen and became a partner in 1995. David is a member of the CBI North West Regional Council.

4 Eric Sanderson, 50,
Non-Executive Deputy Chairman •›▪
Eric joined the Board in 1987 and became Deputy Chairman in May 2001. He is currently Managing Director of Kwik-Fit Insurance Services Limited and will become Executive Chairman in January 2002. He is Chairman of the Quality Panel of the Docklands Light Railway and was previously Chief Executive of the British Linen Bank and Chief Executive of Bank of Scotland Treasury Services.

5 Mike Lee, 54,
Chairman of the Aviation Division
Mike joined the Group in 1990 with responsibility for forming Airtours International, the Group's first in-house airline. He was appointed to the Board in 1993 and given responsibility for all the Group's aviation interests in 1997. He has over 30 years' experience in the airline industry since starting his career with BOAC, and has held a number of senior positions in civil aviation. Mike is a Non-Executive Director of NATS Holdings Limited.

6 Christer Sandahl, 57,
Chairman of the Scandinavian Leisure Group
Christer joined the Group in 1994 on the acquisition of the Scandinavian Leisure Group and was appointed to the Board in 1996. He has over 30 years' experience in the travel industry, is the Vice President of the International Federation of Tour Operators and a Non-Executive Director of Proffice AB, the Cybercom Consulting Group AB and CBC Sweden AB.

7 Richard Carrick, 47,
Chief Executive Officer of the UK Leisure Group
Richard joined the Group in 1993 as Marketing Director for Airtours Holidays and became their Managing Director in 1999. He was appointed to the Board in November 2000 and has over 20 years' experience in the travel industry, including senior positions at International Leisure Group, Saga Holidays and Forte.

8 Peter McHugh, 54,
Chief Executive Officer of Airtours North America
Peter joined the Group in April 2000 as President and Chief Executive Officer of Travel Services International. He was appointed to the Board in November 2000 and has over 20 years' experience in the North American cruise and aviation industries. Previously, Peter was President and Chief Operating Officer of the Holland America Line - Westours Inc. and held senior management positions with TWA and Pan Am.

- • Member of the Audit Committee
- ▸ Member of the Remuneration Committee
- ■ Member of the Nominations Committee

9 **Sir Tom Farmer CBE KCSG, 61, Non-Executive Director •▸■**
Sir Tom joined the Board in 1994. He is Chairman and Chief Executive of Kwik-Fit Holdings plc, which he founded in 1971 and which was the subject of an agreed offer of £1.2bn from the Ford Motor Company in 1999. He is also on the Board of the Ford Customer Service Division, USA, and is Chairman of the Scotland Against Drugs campaign, a Trustee of the Duke of Edinburgh Award and a patron of numerous charities.

10 **Paul Walker, 44, Non-Executive Director •▸■**
Paul joined the Board in December 2000. He is Chief Executive of The Sage Group plc, which he joined in 1984, becoming Finance Director in 1987. He took on his present role in 1994 and has led The Sage Group through a period of sustained expansion including admission to the FTSE 100 in 1999. He is also Non-Executive Chairman of gift retailer, The Gadget Shop.

Directors' report

The Directors present their report together with the accounts and auditors' report for the year ended 30 September 2001.

Principal activities Airtours plc continues to operate within the leisure travel industry with businesses in the United Kingdom, Ireland, mainland Europe, Scandinavia, Australia, Canada, Mexico and the United States of America.

Review of developments A comprehensive review of current and future developments is given in the Chairman's statement on page 2, the Chief Executive's review on page 4 and the Operational and financial review on page 8.

Results and dividends Profit for the year after tax and minority interests amounts to £30.8m (2000: £171.3m). The Directors recommend a final dividend of 7.50p (2000: 7.20p) per ordinary share amounting to £36.9m to be paid on 4 April 2002, which with the interim dividend of 2.00p (2000: 1.80p) per ordinary share, amounting to £9.8m, paid on 15 June 2001, makes a total of 9.50p for the year (2000: 9.00p). £15.8m has been transferred from reserves (2000: £127.4m transferred to reserves).

Directors The Directors in office at the end of the year and their interests in the shares of the Company are listed on page 22.

On 21 November 2000, Mr R J Carrick and Mr P McHugh were appointed to the Board as Executive Directors. Mr P A Walker was appointed as a Non-Executive Director on 13 December 2000.

Following the successful placement of the Carnival shareholding in May 2001, Mr M M Arison and Mr H S Frank resigned from the Board on 1 June 2001.

Mr P F Rothwell, Mr A H Coe, Sir Michael Bishop and Mr L Thuesen also resigned from the Board during the year on 5 October 2000, 31 December 2000, 8 May 2001 and 8 August 2001 respectively.

Mr D Crossland, Mr B C Sandahl and Mr E F Sanderson retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr D Crossland has a service contract terminable by the Company at any time on 24 months' notice. Mr B C Sandahl has a service contract terminable by Scandinavian Leisure Group AB at any time on 12 months' notice. Mr E F Sanderson has a letter of appointment terminable by the Company at any time on six months' notice.

During the year, save as referred to in the Remuneration report and note 31 to the accounts, no Director is or was materially interested in any contract of significance to which the Company or any of its subsidiary undertakings is or was a party.

Supplier payment policy It is the Company's policy to comply with the terms of payment agreed with its suppliers. Where payment terms are not negotiated, the Company endeavours to adhere to suppliers' standard terms.

The number of days credit taken by the Company for trade purchases at 30 September 2001 was 29 days (2000: 24 days). The number of days credit taken by Group companies for trade purchases at 30 September 2001 ranged from 4 days to 75 days (2000: 3 days to 73 days). The average number of days taken was 22 days (2000: 36 days).

Corporate social responsibility The Board acknowledges that Airtours' operations can affect and be affected by the environment, local cultures and heritage matters and regularly considers corporate social responsibility issues and risks in decision-making. Responsibility for managing these risks lies with individual Group companies.

The Board recognises that regulatory compliance, sustainable tourism and aviation activities are key business issues. This recognition has contributed substantially to decisions regarding aircraft replacement, the development and implementation of sustainable tourism programmes and waste and energy management initiatives.

The Board wishes to drive further improvement and will undertake a detailed Group-wide review to refine understanding of the risks and opportunities and to consolidate the Group's environmental and social responsibility principles. A forum comprising nominated individuals from Group companies has been established to review performance, share good practice, and feed back relevant information to the Board, providing assurance and highlighting strategic and process improvement opportunities.

The Euro In February 2002, national currencies will cease to be legal tender for those countries in the 'EuroZone' and this will have an impact on many areas of the Group's activities. In particular, 17 business units operate from within the 'EuroZone' and management have committed considerable resource to ensure that each unit complies with the statutory requirements and that procedures have been established to effect a smooth transition. Similarly, management of those business units trading outside the 'EuroZone' have taken steps to ensure the preparedness of affected contracting partners and that appropriate customer communications have been implemented.

Charitable and political donations The Group made UK charitable donations of £510,000 during the year. It also paid £10,000 by way of sponsorship of a social event at the Labour Party Conference during the year.

Substantial shareholdings At 26 November 2001, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	Number of shares held	% of issued share capital
David Crossland (Chairman)	50,000,000	10.1
Prudential plc	29,645,144	6.0
Putnam Investment Management LLC	14,855,198	3.0

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

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

An employee share scheme was first introduced during 1993 and further offers of shares under the employee share scheme approved at the 1999 Annual General Meeting were made to eligible employees in March 1999, February 2000 and May 2001 and were taken up by 38%, 35% and 16% of eligible employees respectively. The scheme is open to all eligible employees within the UK. Under the terms of the scheme, the Directors may offer options to purchase shares in the Company to employees who enter into an Inland Revenue approved save as you earn savings contract. The price of each share option is determined by taking the average mid-market price over the three business days preceding any offer and this price can then be discounted by up to 20% solely at the Board's discretion. Options may normally be exercised during the period of six months after the completion of the savings contract.

Annual General Meeting The notice convening the Annual General Meeting of the Company to be held on 7 February 2002 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the meeting.

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

By order of the Board
G J McMahon
Secretary
27 November 2001

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

Directors' responsibilities

Accounts, including adoption of going concern basis
Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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

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

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

Corporate governance

The Airtours Group is committed to operating the highest standards of corporate governance.

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

The Board comprises seven Executive and three Non-Executive Directors, details of whom are included on pages 12 and 13. All Non-Executive Directors are considered to be independent. The composition of the Board is designed to provide an appropriate balance of Group, industry and general commercial experience and is reviewed at regular intervals to ensure that it remains appropriate to the nature of the Group's activities.

The roles of Chairman and Chief Executive are distinct and the offices are held by Mr D Crossland and Mr T R Byrne respectively. Mr E F Sanderson has been identified by the Board as the senior Non-Executive Director.

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

The Board promotes open communication with shareholders which is formalised within a framework of investor relations, and includes formal presentations of full-year and interim results; trading statements; and regular meetings between Executive Management and institutional investors. In addition, the Board responds continually to ad-hoc requests for information and all shareholders, including private investors, have an opportunity to question the Board at the Annual General Meeting.

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

Nominations Committee This Committee meets once a year, and on an ad-hoc basis as required, to make recommendations in relation to all new appointments to the Board and in respect of the Board's composition and balance.

Remuneration Committee This Committee was established and operates within the framework prescribed in the Combined Code. The Committee reviews the remuneration and contractual arrangements of the Executive Directors and senior executives. Full details of Directors' remuneration are included in the Remuneration report on page 19.

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

Risk management and internal control
The Board recognises its ultimate accountability for maintaining an effective system of internal control that is appropriate in relation to both the scope and nature of the Group's activities.

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

The Board and Executive Management recognise that risk management is a dynamic and evolving discipline and the system of internal control is subject to continual assessment and refinement to ensure that it remains appropriate in relation to the principal risks faced by the Group. During the year the Group has appointed a Head of Risk Management and the constitution and scope of activities of the Risk Management Committee have been extended to include the regular review of the Group's Risk Register, the monitoring of progress of plans initiated to reduce the level of risk, where it is deemed unacceptable, and an assessment of the frequency and magnitude with which risks crystalise.

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

Strategic Changes in the business environment influence the Group's development in terms of the strategies it pursues and the products and services it offers. These changes may stem from market competition or political, economic and technological advancement. In response to these risks, the Group operates a conservative operating structure that is designed to withstand significant changes in consumer demand patterns.

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

An example of some of the financial risks faced by the group are set out below:

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

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

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

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

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

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

Our financial risks are managed through a framework of financial instruments which are applied within strict limits approved by the Board. See Operational and financial review on page 8.

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

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

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

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

Corporate governance continued

Compliance with the Combined Code

The Directors confirm that for the year ended 30 September 2001 the Group complied with the code of best practice set out in section 1 of the Combined Code on Corporate Governance as appended to the Listing Rules of the UK Listing Authority, with the following exceptions:

- Following the resignation of certain directors during the year, the Non-Executive Directors now comprise only 30% of the Board. The Group is actively seeking new Non-Executive Directors of the required calibre to join the Board in the near future.
- All of the Executive Directors except for Mr B C Sandahl have service contracts that are terminable by the Company giving not less than 24 months' notice. The Board believes that these notice periods are appropriate given the need to retain the specialist skills that these Directors bring to the business.
- Given his extensive knowledge of the business and the industry in which it operates, the Board believes it is appropriate for Mr D Crossland, the Chairman of Airtours plc, to remain as a member of the Remuneration Committee. He does not, however, determine his own remuneration package nor does he participate in any of the Group's share-based incentive schemes.

Remuneration report

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

The members of the Remuneration Committee are Mr D Crossland, the Chairman of Airtours plc (who is Chairman of the Committee) and three Non-Executive Directors, the Deputy Chairman Mr E F Sanderson, Mr P A Walker and Sir Tom Farmer.

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

Executive remuneration policy The Group's remuneration policy ensures that Directors and senior executives are rewarded in a way which attracts and retains management of the highest quality and motivates them to achieve the highest level of performance consistent with the best interests of the Group, its shareholders and employees. The Committee takes account of the remuneration packages provided by companies within the same industry or which are of comparable size, and with similar records of performance. Individual remuneration packages reflect the annual and long-term performance of the Group measured against targets set by the Committee and adopted by the Board.

The main elements of Directors' remuneration are:

I BASE SALARY AND BENEFITS

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

II BONUSES

a Annual bonus entitlements are dependent upon the actual performance of the Group compared to targets set at the beginning of the financial year by the Remuneration Committee.

The annual bonus for each of the Executive Directors is calculated on the basis of an annual entitlement of a maximum of 75% of base salary for all Executive Directors with the exception of Mr P McHugh who is entitled to 100% of base salary. Bonuses are normally paid in the December following the end of the relevant financial year in which they are earned.

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

III PENSION RIGHTS

Messrs T R Byrne, D Jardine and R J Carrick are each members of the Company's defined contribution scheme into which the Company contributes a proportion of their pension entitlement. Mr M C Lee has his own non contributory personal pension scheme into which the Company also contributes a proportion of his pension entitlement. The balance of their pension entitlement is contributed into an individual funded unapproved retirement benefits scheme established for each Director concerned. The aggregate of the contributions for each of these Directors paid into the Airtours defined contribution scheme or in the case of Mr M C Lee, his personal pension scheme, and that individual's funded unapproved retirement benefit scheme is equivalent to 25% of their annual salary.

With regard to Mr B C Sandahl, the Group contributes each year into a pension scheme 25% of his annual salary together with, for the year ended 30 September 2001, a further £25,000 pursuant to his entitlement under the terms of his service contract with Scandinavian Leisure Group AB.

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

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

IV SHARE OPTION SCHEMES

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

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

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

Remuneration report continued

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

The Airtours 1999 SAYE scheme was adopted by shareholders on 11 February 1999 and is open to all UK employees who have been with the Group for a qualifying period fixed by the Board. Eligible UK employees with at least six months' service were invited in March 1999, February 2000 and again in May 2001 to apply for the grant either of options exercisable between three years and three years and six months after the commencement of the relevant savings contract or of options normally exercisable between five years and five years and six months from such commencement.

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

d **Airtours 1998 share bonus plan** The Airtours 1998 share bonus plan was adopted by resolution of the Board and by the Board of Airtours Trustee Limited on 27 October 1998. Employees of Airtours UK Leisure Group (other than Directors of Airtours plc) previously participating in the AirPlan incentive and reward plan were eligible to be selected for the grant of awards under the plan. Invitations were issued on 2 November 1998 to selected eligible employees to apply for an award, which were made on 11 January 1999. No further invitations may be issued. All remaining options under this scheme were exercised in November 2000.

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

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

Options are granted at an option price which must be not less than the average of the mid-market price as derived from the Official List for the three dealing days immediately preceding the date of grant.

f **Airtours plc 1999 share bonus plan** The Airtours plc 1999 share bonus plan was adopted by resolution of the Boards of Airtours plc and Airtours Trustee Limited on 18 August 1999. Employees who had been members of the Company's phantom share scheme were entitled to participate in the scheme and options were granted to them during August 1999. Options under the plan are normally exercisable during the period commencing with the date of grant of an option and ending on 30 September 2003. In the event that the exercise date falls during a close period or a prohibited period for the purposes of the Model Code, the exercise period may be extended.

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

The right to exercise options granted under the plan is subject to the fulfillment of performance conditions based on the growth in the earnings of Travel Services International, Inc over the financial year during which the options were granted.

Service contracts Each of the Executive Directors, other than Mr B C Sandahl, has a service contract with the Company. Mr Sandahl has a service contract with Scandinavian Leisure Group AB.

The service contracts of the Executive Directors, other than Mr B C Sandahl, are terminable by the Company giving not less than 24 months' notice. Mr Sandahl's contract is terminable on 12 months' notice.

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

Non-Executive Directors A Committee comprising Executive Directors determines the remuneration of the Non-Executive Directors. Non-Executive Directors do not receive bonus payments or share options and they are not members of the Company's pension scheme. Each Non-Executive Director has a letter of appointment which provides that their appointment is terminable by the Company giving not less than six months' notice.

Remuneration report continued

Remuneration in respect of Directors was as follows:

	Annual base salary September 2001 £000	Salary and fees £000	Bonus £000	Benefits £000	Pension‡ contributions £000	Total 2001 £000	Total 2000 £000
Executive							
D Crossland, Chairman	570	570	402	67	–	1,039	611
T R Byrne	450	440	325	27	110	902	440
D Jardine	350	335	252	17	84	688	237
M C Lee	350	335	252	19	162	768	391
B C Sandahl	297	291	214	11	129	645	297
R J Carrick (appointed 21 November 2000)	350	305	252	7	103	667	–
P McHugh (appointed 21 November 2000)	347	287	349	15	72	723	–
L Thuesen* (resigned 8 August 2001)	–	312	–	28	78	418	434
P F Rothwell** (resigned 5 October 2000)	–	4	–	–	1	5	358
		2,879	2,046	191	739	5,855	2,768
Non-Executive							
E F Sanderson	65	35	–	1	–	36	19
Sir Tom Farmer	18	18	–	–	–	18	17
P A Walker (appointed 13 December 2000)	36	29	–	–	–	29	–
Sir Michael Bishop (resigned 8 May 2001)	–	33	–	–	–	33	52
A H Coe † (resigned 31 December 2000)	–	–	–	–	–	–	157
M M Arison (resigned 1 June 2001)	–	–	–	–	–	–	–
H S Frank (resigned 1 June 2001)	–	–	–	–	–	–	–
		115	–	1	–	116	245
Total emoluments		2,994	2,046	192	739	5,971	3,013

* On his resignation as an Executive Director, Mr L Thuesen received a payment of £948,000 and agreed to supply consultancy services to the Company for a period of six months from 9 August 2001 at a total cost to the Company of £30,000 over the period. Mr Thuesen also received benefits with a value of £21,000 under the agreement.

** Mr P Rothwell who resigned on 5 October 2000 continued to be an employee of the Group under the terms of the notice period of his employment contract until 28 February 2001. At that date the notice period was terminated by mutual consent. During the period Mr Rothwell received remuneration of £133,335 and benefits with a value of £44,000 on leaving the Company.

† Mr A H Coe resigned as a Non-Executive Director of the Company on 31 December 2000. During the year under the arrangements made on his retirement as an Executive Director, Mr Coe received £248,892 with a further £452,100 paid into the Airtours pension scheme for the benefit of Mr Coe. As at 30 September 2001 a further amount of £175,248 remained to be paid under these arrangements.

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

The interests, beneficial unless otherwise indicated, of the Directors in the shares of the Company, as shown by the register maintained under section 325 of the Companies Act 1985, at 1 October 2000 (or the date of their appointment to the Board if later) and 30 September 2001 were as follows:

			1986 Share Option Scheme			
	Ordinary shares 2001	Ordinary shares 2000	Class 1 options 2001	Class 1 options 2000	Class 2 options 2001	Class 2 options 2000
D Crossland*	50,000,000	48,539,874	–	–	–	–
T R Byrne	–	–	–	–	360,000	360,000
D Jardine	–	–	–	–	–	–
E F Sanderson	18,720	18,720	–	–	–	–
M C Lee **	468,622	122,002	–	300,000	–	421,620
B C Sandahl	–	–	–	–	–	–
R J Carrick	44,885	–	–	–	–	–
P McHugh	–	–	–	–	–	–
Sir Tom Farmer	75,000	75,000	–	–	–	–
P A Walker	–	–	–	–	–	–

	SAYE scheme options 2001	SAYE scheme options 2000	Executive 1999 scheme 2001	Executive 1999 scheme 2000	Share Bonus Plan 1998 2001	Share Bonus Plan 1998 2000
D Crossland*	–	–	–	–	–	–
T R Byrne	8,859	8,859	607,228	–	–	–
D Jardine	4,136	–	431,804	275,384	–	–
E F Sanderson	–	–	–	–	–	–
M C Lee **	8,307	8,307	431,804	–	–	–
B C Sandahl	–	–	431,804	–	–	–
R J Carrick	4,768	4,768	490,776	170,500	–	75,953
P McHugh	–	–	487,684	255,936	–	–
Sir Tom Farmer	–	–	–	–	–	–
P A Walker	–	–	–	–	–	–

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

** Of the 468,622 ordinary shares (1 October 2000: 122,002), 43,250 (1 October 2000: 3,250) represents a non-beneficial interest.

In the period between 30 September 2001 and 26 November 2001 there were no changes in the Directors' interests referred to above.

As at 30 September 2001 the undermentioned Directors had outstanding the following options to acquire ordinary shares of the Company under the terms of the Airtours plc executive share option scheme (1986), the Airtours plc 1999 executive share option scheme and the Airtours plc SAYE schemes.

		At 30 September 2001	Lapsed in year	Exercised in year	Granted in year	At 1 October 2000	Exercise price	Date from which exercisable	Expiry date
T R Byrne	Class 2	210,000	–	–	–	210,000	149.50p	05.08.99	04.08.04
	Class 2	150,000	–	–	–	150,000	135.67p	14.07.00	13.07.05
	SAYE	8,859	–	–	–	8,859	194.70p	01.03.02	31.08.02
	1999 executive scheme:								
	Unapproved options	607,228	–	–	607,228	–	207.50p	*	*
D Jardine	1999 executive scheme:								
	Approved options	14,457	–	–	14,457	–	207.50p	*	*
	Unapproved options	–	275,384(1)	–	–	275,384	290.50p	*	*
	Unapproved options	417,347	–	–	417,347	–	207.50p	*	*
	SAYE	4,136	–	–	4,136	–	234.20p	01.08.04	31.01.05
M C Lee	Class 2	–	–	121,620	–	121,620	38.56p	05.07.96	04.07.01
	Class 1	–	–	300,000	–	300,000	149.50p	05.08.97	04.08.04
	Class 2	–	–	300,000	–	300,000	149.50p	05.08.99	04.08.04
	1999 executive scheme:								
	Unapproved options	431,804	–	–	431,804	–	207.50p	*	*
	SAYE	8,307	–	–	–	8,307	203.14p	01.06.05	30.11.05
B C Sandahl	1999 executive scheme:								
	Unapproved options	431,804	–	–	431,804	–	207.50p	*	*
R J Carrick	1999 executive scheme:								
	Approved options	7,117	–	–	–	7,117	421.50p	*	*
	Unapproved options	51,855	–	–	–	51,855	421.50p	*	*
	Unapproved options	–	111,528(1)	–	–	111,528	290.50p	*	*
	Unapproved options	431,804	–	–	431,804	–	207.50p	*	*
	SAYE	4,768	–	–	–	4,768	203.14p	01.06.03	30.11.03
	1998 share bonus plan	–	–	75,953	–	75,953	100.00p(2)	01.09.00	27.09.00
P McHugh	1999 executive scheme:								
	Unapproved options	–	255,936(1)	–	–	255,936	290.50p	*	*
	Unapproved options	487,684	–	–	487,684	–	207.50p	*	*

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

(1) The number of unapproved options granted to Mr R J Carrick, Mr D Jardine and Mr P McHugh in the year ended 30 September 2000 lapsed during the year ended 30 September 2001 due to their individual bonus targets for the year ended 30 September 2000 not being achieved.

The mid-market price of the Company's ordinary shares at the close of business on 30 September 2001 was 160.75p (2000: 215.50p) and the range during the financial year ended 30 September 2001 was 110.00p to 335.50p. These mid-market prices are as derived from the London Stock Exchange Daily Official List and the range of prices are as derived from Datastream.

Set out below is a summary of the gains on exercise made by Directors who exercised any share options during the year ended 30 September 2001 and the preceding financial year.

		Exercised year ended 30 September 2001	Exercised year ended 30 September 2000	Exercise price	Market price at date of exercise	Gain year ended 30 September 2001 £	Gain year ended 30 September 2000 £
M C Lee	Class 2	121,620	–	38.56p	274.38p	286,798	–
	Class 1	300,000	–	149.50p	274.38p	374,625	–
	Class 2	300,000	–	149.50p	274.38p	374,625	–
R J Carrick	1998 share bonus plan	75,953	–	100.00p(2)	214.38p	162,823	–
A H Coe	Class 1	–	150,000	149.50p	357.50p	–	312,000
	Class 2	–	121,620	38.56p	357.50p	–	387,895
	Class 2	–	150,000	149.50p	357.50p	–	312,000
P F Rothwell	1998 share bonus plan	–	97,000	100.00p(2)	285.00p	–	276,449
	1998 share bonus plan	54,906	–	100.00p(2)	214.38p	117,704	–

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

Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

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

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

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

3 **Intangible assets – goodwill** Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised. It is written off on a straight line basis over its useful economic life which is up to 20 years. Provision is made for any impairment.

Goodwill arising on acquisitions in the year ended 30 September 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the Balance Sheet.

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

4 **Tangible fixed assets** Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation on tangible fixed assets other than freehold land, upon which no depreciation is provided, is calculated on a straight line or reducing balance basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Freehold buildings	40 years
Short leasehold properties	Period of lease
Aircraft	20 years
Aircraft spares	15 years
Cruise ships	10 to 15 years
Other fixed assets	3 to 15 years.

5 **Aircraft overhaul and maintenance costs** The cost of major overhauls of owned engines, auxiliary power units and airframes is capitalised and then amortised over between two and ten years until the next scheduled major overhaul. Provision is made for the future costs of major overhauls of leased engines, auxiliary power units and airframes by making appropriate charges to the Profit and Loss Account, calculated by reference to the number of hours flown during the period as a consequence of the legal obligation placed upon the Group under the terms of the operating leases.

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

Other pre-operating costs incurred prior to bringing an asset into use are expensed to the Profit and Loss Account as incurred.

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

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

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

The Group's share of the profits less losses and other recognised gains and losses of the associated and joint venture undertakings are included in the Group Profit and Loss Account and Statement of Total Recognised Gains and Losses.

Joint venture undertakings in the Group Balance Sheet are accounted for using the gross equity method of consolidation and associated undertakings are included at the Group's share of net assets, after adjustment for goodwill.

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

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

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

11 **Income recognition** Turnover represents the aggregate amount of gross revenue receivable from inclusive tours, travel agency commissions receivable and other services supplied to customers in the ordinary course of business. Revenues and expenses relating to inclusive tours are taken to the Profit and Loss Account on holiday departure. Other revenues and associated expenses are taken to the Profit and Loss Account as earned. Certain expenses such as the cost of non-revenue earning flights, brochure and promotional costs are charged to the Profit and Loss Account over the season to which they relate. Turnover and expenses exclude intra-group transactions.

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

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

13 **Foreign currency** Each year an estimate of the results and net assets of certain of the Company's overseas subsidiary undertakings are hedged. The actual results are translated using the hedged rates. Average exchange rates are used to translate the results of all other overseas subsidiary undertakings and the balance sheets of such overseas subsidiary undertakings are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction or at the appropriate hedged rate. Foreign currency monetary assets and liabilities held at the year end are translated at year end exchange rates, or the exchange rate of related hedging instruments where appropriate. The resulting exchange gain or loss is dealt with in the Profit and Loss Account.

14 **Leases** Assets held under finance leases are capitalised in the Balance Sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the Profit and Loss Account over the period of the lease.

Operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

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

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

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

17 **Derivative financial instruments** The Group uses derivative instruments to reduce exposure to foreign exchange risk, fuel risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

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

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

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

18 **Own shares held under trust** Shares held by the employee share ownership trusts are recorded in the Balance Sheet within fixed asset investments at cost including expenses less amounts written off.

Group profit and loss account

Year ended 30 September	note	Pre-goodwill and exceptional operating items 2001 £m	Goodwill and exceptional operating items (note 2) 2001 £m	Total 2001 £m	Pre-goodwill and exceptional operating items 2000 £m	Goodwill and exceptional operating items (note 2) 2000 £m	Total 2000 £m
Turnover: Group and share of joint ventures'	1(a)						
Continuing operations		5,044.8	–	5,044.8	4,108.1	–	4,108.1
Acquisitions		22.4	–	22.4	–	–	–
		5,067.2	–	5,067.2	4,108.1	–	4,108.1
Discontinued operations		22.3	–	22.3	326.7	–	326.7
		5,089.5	–	5,089.5	4,434.8	–	4,434.8
Less: share of joint ventures' turnover	1(a)						
Continuing operations		(28.1)	–	(28.1)	(302.4)	–	(302.4)
Discontinued operations		–	–	–	(183.4)	–	(183.4)
Group turnover		5,061.4	–	5,061.4	3,949.0	–	3,949.0
Cost of sales	3	(4,245.0)	–	(4,245.0)	(3,347.9)	(5.6)	(3,353.5)
Gross profit		816.4	–	816.4	601.1	(5.6)	595.5
Net operating expenses pre-goodwill		(690.1)	(24.3)	(714.4)	(515.9)	(15.3)	(531.2)
Goodwill	11	–	(30.1)	(30.1)	–	(13.3)	(13.3)
Net operating expenses	3	(690.1)	(54.4)	(744.5)	(515.9)	(28.6)	(544.5)
Operating profit	1(b)						
Continuing operations		124.5	(53.4)	71.1	100.2	(34.2)	66.0
Acquisitions		1.8	(1.0)	0.8	–	–	–
		126.3	(54.4)	71.9	100.2	(34.2)	66.0
Discontinued operations		–	–	–	(15.0)	–	(15.0)
Group operating profit		126.3	(54.4)	71.9	85.2	(34.2)	51.0
Income from interests in joint ventures and associates							
Joint ventures – continuing operations	1(c)	3.0	–	3.0	(33.3)	(11.3)	(44.6)
– goodwill	13	–	(1.2)	(1.2)	–	–	–
– discontinued operations	1(c)	–	–	–	31.6	–	31.6
Associates – continuing operations	1(c)	2.9	–	2.9	–	–	–
– goodwill	13	–	(0.5)	(0.5)	–	–	–
Group and share of joint ventures' and associates' operating profit		132.2	(56.1)	76.1	83.5	(45.5)	38.0
Exceptional items							
Profit on sale of tangible fixed assets	1(d)			22.8			12.2
Profit on sale of tangible fixed assets in discontinued joint venture undertaking				–			1.7
Provision for losses on terminated operations	1(e)			–			(32.3)
Losses on terminated operations	1(e)			(19.7)			–
Less utilisation of provision made in 2000	1(e)			15.8			–
Costs of a fundamental reorganisation	1(f)			(11.3)			(37.3)
Profit on disposal of joint venture undertaking				–			235.8
Profit on ordinary activities before finance charges				83.7			218.1
Finance charges (net)	1(g), 4						
Group				(2.3)			2.5
Joint ventures and associates				(0.1)			(9.2)
Profit on ordinary activities before tax	1(h), 5			81.3			211.4
Tax on profit on ordinary activities	7			(30.3)			(25.0)
Profit on ordinary activities after tax				51.0			186.4
Equity minority interests				(3.5)			(0.3)
Non-equity minority interests	24			(16.7)			(14.8)
Profit for the financial year				30.8			171.3
Dividends	9			(46.6)			(43.9)
Transfer (from)/to reserves	23			(15.8)			127.4
Earnings per share	10						
Basic				6.28p			35.98p
– pre-goodwill				12.78p			38.77p
– pre-goodwill and exceptional items				16.18p			9.12p
Diluted				6.26p			34.10p
– pre-goodwill				12.72p			36.53p
– pre-goodwill and exceptional items				16.11p			10.69p

The accounting policies on pages 24 and 25 and notes on pages 31 to 55 form part of these accounts.

Group balance sheet

At 30 September	note	2001 £m	2000 £m
Fixed assets			
Intangible assets – goodwill	11	540.2	534.8
Tangible assets	12	431.1	513.5
Joint venture undertakings	13		
Share of gross assets		73.0	53.4
Share of gross liabilities		(55.9)	(31.5)
Goodwill		23.5	17.5
		40.6	39.4
Investments in associated undertakings	13	29.9	6.5
Other investments	13	13.2	9.4
		83.7	55.3
Total fixed assets		1,055.0	1,103.6
Current assets			
Stocks	14	13.3	17.2
Debtors: amounts falling due within one year	15	657.5	551.6
Debtors: amounts falling due after one year	16	181.0	160.6
Cash and deposits	17	378.6	793.3
		1,230.4	1,522.7
Creditors: amounts falling due within one year	18	(1,203.3)	(1,273.9)
Net current assets		27.1	248.8
Total assets less current liabilities		1,082.1	1,352.4
Creditors: amounts falling due after one year			
Convertible debt	19	(271.3)	(285.3)
Other creditors	19	(189.3)	(410.1)
		(460.6)	(695.4)
Provisions for liabilities and charges	21	(99.6)	(113.4)
Net assets	1(i)	521.9	543.6
Capital and reserves			
Called up share capital	22	49.3	49.1
Share premium account	23	109.5	107.5
Capital redemption reserve	23	3.2	3.2
Other reserves	23	18.0	18.0
Profit and loss account	23	132.3	157.0
Equity shareholders' funds		312.3	334.8
Equity minority interests		1.1	1.2
Non-equity minority interests	24	208.5	207.6
		521.9	543.6

The accounts were approved by the Board of Directors on 27 November 2001.

D Jardine
Director

D. Jardine

The accounting policies on pages 24 and 25 and notes on pages 31 to 55 form part of these accounts.

Company balance sheet

At 30 September	note	2001 £m	2000 £m
Fixed assets			
Intangible assets – goodwill	11	0.5	–
Tangible assets	12	57.9	38.2
Investments	13	651.3	551.9
Total fixed assets		709.7	590.1
Current assets			
Stocks	14	4.2	3.2
Debtors: amounts falling due within one year	15	1,836.4	1,804.5
Debtors: amounts falling due after one year	16	75.7	107.0
Cash and deposits	17	70.6	536.5
		1,986.9	2,451.2
Creditors: amounts falling due within one year	18	(1,894.7)	(2,001.6)
Net current assets		92.2	449.6
Total assets less current liabilities		801.9	1,039.7
Creditors: amounts falling due after one year			
Convertible debt	19	(271.3)	(285.3)
Other creditors	19	(71.9)	(266.8)
		(343.2)	(552.1)
Provisions for liabilities and charges	21	(8.8)	–
Net assets		449.9	487.6
Capital and reserves			
Called up share capital	22	49.3	49.1
Share premium account	23	109.5	107.5
Capital redemption reserve	23	3.2	3.2
Other reserves	23	153.6	153.6
Profit and loss account	23	134.3	174.2
Equity shareholders' funds		449.9	487.6

The accounts were approved by the Board of Directors on 27 November 2001.

D Jardine
Director

D. Jardine

The accounting policies on pages 24 and 25 and notes on pages 31 to 55 form part of these accounts.

Group cash flow statement

Year ended 30 September	note	2001 £m	2000 £m
Net cash (outflow)/inflow from operating activities	25	(10.5)	133.9
Dividends received from associated undertakings		0.6	–
Returns on investments and servicing of finance			
Interest received		34.3	41.6
Interest paid		(30.1)	(31.3)
Interest element of finance leases		(3.4)	(4.2)
Issue costs of undated preference shares	24	–	(4.8)
Dividends paid on undated preference shares	24	(15.8)	(12.4)
Minority interests		(3.3)	0.1
Net cash outflow from returns on investments and servicing of finance		(18.3)	(11.0)
Tax paid		(1.3)	(8.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(126.2)	(224.3)
Purchase of fixed asset investments		(7.9)	(1.3)
Loans to joint venture undertakings		–	(77.3)
Sale of tangible fixed assets		86.0	87.8
Loans to joint venture undertaking repaid		18.0	–
Net cash outflow from capital expenditure and financial investment		(30.1)	(215.1)
Acquisitions and disposals	13		
Purchase of subsidiary undertakings		(31.6)	(337.8)
Acquisition expenses		(1.1)	(10.4)
Cash at bank and in hand acquired with subsidiaries		5.9	53.4
Proceeds less cash at bank and in hand relating to disposal of subsidiaries		(3.5)	0.7
Investment in joint venture and associated undertakings		(27.4)	(14.5)
Sale of joint venture undertaking		–	350.0
Disposal expenses		–	(2.2)
Net cash (outflow)/inflow from acquisitions and disposals		(57.7)	39.2
Equity dividends paid		(45.1)	(40.1)
Cash outflow before use of liquid resources and financing		(162.4)	(102.0)
Management of liquid resources			
Movement on term deposits		328.9	(140.3)
Sale of current asset investments		–	13.2
Net cash inflow/(outflow) from management of liquid resources		328.9	(127.1)
Financing			
Issue of shares		2.2	1.3
Issue of unsecured senior loan notes		66.5	–
Redemption of Convertible Bonds due 2004		(25.0)	–
Issue of undated preference shares		–	210.0
Loan repayments		(277.1)	(87.4)
New bank loans		–	250.0
Capital element of finance lease rental payments		(9.8)	(17.0)
Net cash (outflow)/inflow from financing		(243.2)	356.9
(Decrease)/increase in cash in the year		(76.7)	127.8

The accounting policies on pages 24 and 25 and notes on pages 31 to 55 form part of these accounts.

Group cash flow statement continued

Year ended 30 September	note	2001 £m	2000 £m
Reconciliation of net cash flow to movement in net (debt)/funds			
(Decrease)/increase in cash in the year		(76.7)	127.8
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing		245.4	(145.6)
Cash (inflow)/outflow from (decrease)/ increase in liquid resources		(328.9)	127.1
Changes in net (debt)/funds resulting from cash flows		(160.2)	109.3
Loans and finance leases acquired with subsidiary undertakings		(0.8)	(35.5)
Loan notes issued in year		–	(7.0)
Transfer of Convertible Bonds due 2004 redeemed 29 September 2000, settled 2 October 2000		(9.0)	9.0
Issue costs of Convertible Bonds due 2004		(2.0)	(2.0)
Profit on sale of current asset investments		–	1.2
Exchange differences		(6.9)	(32.5)
Movement in net (debt)/funds in the year		(178.9)	42.5
Net funds brought forward		158.9	116.4
Net (debt)/funds carried forward	26	(20.0)	158.9

Group statement of total recognised gains and losses

Year ended 30 September	2001 £m	2000 £m
Profit for the financial year	30.8	171.3
Currency differences on foreign currency net investments	(8.8)	(19.6)
Total recognised gains and losses relating to the year	22.0	151.7

Reconciliation of movements in group shareholders' funds

Year ended 30 September	2001 £m	2000 £m
Profit for the financial year	30.8	171.3
Dividends	(46.6)	(43.9)
	(15.8)	127.4
Exchange differences	(8.8)	(19.6)
Issue of shares (net of expenses)	2.1	34.2
Goodwill written back to reserves	–	(14.5)
Net (decrease)/ increase in shareholders' funds	(22.5)	127.5
Equity shareholders' funds at 1 October	334.8	207.3
Equity shareholders' funds at 30 September	312.3	334.8

The accounting policies on pages 24 and 25 and notes on pages 31 to 55 form part of these accounts.

Notes to the accounts

1 Segmental information

a			2001 £m	2000 £m
Turnover				
UK	continuing		2,672.2	2,323.8
Other Europe	continuing			
		Scandinavia & The Netherlands	1,018.3	926.3
		FTi	684.4	92.8
	acquisitions		14.0	–
	discontinued		22.3	143.3
North America	continuing			
		NALG	454.5	383.8
		TSI	187.3	79.0
	acquisitions		8.4	–
Group			5,061.4	3,949.0
Joint ventures	continuing			
		FTi	–	293.9
		Tenerife Sol	8.0	8.1
		Other	20.1	0.4
	discontinued			
		Costa	–	183.4
Group and share of joint ventures'			5,089.5	4,434.8

On 4 September 2000 the Group acquired the remaining issued share capital of FTi. The Group's share of its results for the period to 3 September 2000 are shown in Joint ventures – continuing.

Discontinued operations within the Group figures relate to the closure of the Belgian and French operations. Discontinued operations within Joint ventures for 2000 relate to the disposal of Costa.

b			Pre-goodwill and exceptional operating items 2001 £m	2000 £m	Goodwill 2001 £m	2000 £m	Exceptional operating items 2001 £m	2000 £m	Total 2001 £m	Total 2000 £m
Operating profit										
UK	continuing		92.4	97.2	(6.0)	(3.9)	(20.7)	(11.2)	65.7	82.1
Other Europe	continuing									
		Scandinavia & The Netherlands	33.9	10.3	(0.9)	(0.9)	(3.6)	(2.7)	29.4	6.7
		FTi	(25.5)	(9.2)	(6.7)	(1.0)	–	(3.0)	(32.2)	(13.2)
	acquisitions		0.8	–	–	–	–	–	0.8	–
	discontinued		–	(15.0)	–	–	–	–	–	(15.0)
North America	continuing									
		NALG	2.4	(16.3)	(1.4)	(0.8)	–	(4.0)	1.0	(21.1)
		TSI	21.3	18.2	(14.1)	(6.7)	–	–	7.2	11.5
	acquisitions		1.0	–	(1.0)	–	–	–	–	–
			126.3	85.2	(30.1)	(13.3)	(24.3)	(20.9)	71.9	51.0

c			Pre-goodwill and exceptional operating items 2001 £m	2000 £m	Goodwill 2001 £m	2000 £m	Exceptional operating items 2001 £m	2000 £m	Total 2001 £m	Total 2000 £m
Income from interests in joint ventures and associates										
Joint ventures	continuing									
		FTi	–	(35.4)	–	–	–	(11.3)	–	(46.7)
		Tenerife Sol	2.1	2.0	–	–	–	–	2.1	2.0
		Other	0.9	0.1	(1.2)	–	–	–	(0.3)	0.1
	discontinued									
		Costa	–	31.6	–	–	–	–	–	31.6
Associates	continuing									
		FTi – direct distribution	1.1	–	(0.3)	–	–	–	0.8	–
	acquisitions									
		Aqua Sol	1.8	–	(0.2)	–	–	–	1.6	–
			5.9	(1.7)	(1.7)	–	–	(11.3)	4.2	(13.0)

Notes to the accounts continued

1 Segmental information continued

			2001 £m	2000 £m
d Profit on sale of tangible fixed assets				
UK	continuing		22.9	7.5
Other Europe	continuing			
		Scandinavia & The Netherlands	–	4.0
		FTi	(0.1)	–
	discontinued		–	0.7
			22.8	12.2

The tax effect of the profit on sale of tangible fixed assets is £7.9m (2000: £3.2m).

	2001 £m	2000 £m
e Losses on terminated operations		
UK	1.9	12.1
Other Europe	2.0	20.2
	3.9	32.3

The provision for losses on terminated operations in the UK in 2000 represented the downsizing and exit of the Group from Vacation Ownership operations. During 2001, the Group incurred £4.4m of costs relating to this downsizing and exit and utilised £2.5m of the provisions made in 2000.

In Other Europe, the Group announced in 2000 the closure of its Belgian charter airline operations and closed its tour operations in France and Belgium and made provision for £20.2m of related costs. During 2001, £15.3m of costs were incurred and £13.3m of the provision utilised.

Goodwill written off as a result of the downsizing of Vacation Ownership and the closure of Air Belgium included in the above figures for 2000 was £2.9m and £1.4m respectively.

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

f Costs of a fundamental reorganisation

The costs of a fundamental reorganisation include £7.9m (2000: £37.3m) relating to the radical restructuring of the Group's UK activities which resulted in the relocation of the majority of the UK back office activities to a single site in Rochdale, offset by £7.8m of income (net of costs) from the settlement of a contractual dispute, following the termination of an outsourcing agreement in June 2000 and the write-off of legacy systems associated with the fundamental reorganisation. The net tax effect of these transactions is £nil (2000: £11.0m).

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

			2001 £m	2000 £m
g Finance charges (net)				
UK	continuing		24.0	3.9
Other Europe	continuing			
		Scandinavia & The Netherlands	1.8	10.0
		FTi	(9.1)	(0.1)
	discontinued		–	(1.6)
North America	continuing			
		NALG	(0.4)	0.4
		TSI	(18.6)	(10.1)
Group			(2.3)	2.5
Joint ventures	continuing			
		FTi	–	(2.9)
		Tenerife Sol	–	0.1
		Other	(0.3)	–
	discontinued			
		Costa	–	(6.4)
Associates	continuing			
		FTi – direct distribution	0.2	–
Joint ventures and Associates			(0.1)	(9.2)

1 Segmental information continued

h Profit on ordinary activities before tax

		Pre-goodwill and exceptional items 2001 £m	Pre-goodwill and exceptional items 2000 £m	Goodwill 2001 £m	Goodwill 2000 £m	Exceptional items 2001 £m	Exceptional items 2000 £m	Total 2001 £m	Total 2000 £m
UK	continuing	116.4	101.1	(6.0)	(3.9)	0.2	182.7	110.6	279.9
Other Europe	continuing								
	Scandinavia & The Netherlands	35.7	20.3	(0.9)	(0.9)	(3.6)	1.3	31.2	20.7
	FTi	(34.6)	(9.3)	(6.7)	(1.0)	(11.3)	(3.0)	(52.6)	(13.3)
	acquisitions	0.8	–	–	–	–	–	0.8	–
	discontinued	–	(16.6)	–	–	(2.0)	(19.5)	(2.0)	(36.1)
North America	continuing								
	NALG	2.0	(15.9)	(1.4)	(0.8)	–	(4.0)	0.6	(20.7)
	TSI	2.7	8.1	(14.1)	(6.7)	–	–	(11.4)	1.4
	acquisitions	1.0	–	(1.0)	–	–	–	–	–
Joint ventures	continuing								
	FTi	–	(38.3)	–	–	–	(11.3)	–	(49.6)
	Tenerife Sol	2.1	2.1	–	–	–	–	2.1	2.1
	Other	0.6	0.1	(1.2)	–	–	–	(0.6)	0.1
	discontinued								
	Costa	–	25.2	–	–	–	1.7	–	26.9
Associates	continuing								
	FTi – direct distribution	1.3	–	(0.3)	–	–	–	1.0	–
	acquisitions								
	Aqua Sol	1.8	–	(0.2)	–	–	–	1.6	–
		129.8	76.8	(31.8)	(13.3)	(16.7)	147.9	81.3	211.4

i Net assets/(liabilities)

	2001 £m	2000 £m
UK	106.9	282.6
Other Europe	286.5	273.3
North America	128.5	(12.3)
	521.9	543.6

2 Exceptional operating items

				2001 £m	2000 £m
UK	continuing	i	Apollon contract termination	–	5.6
		ii	retirement of directors	–	2.2
		iii	reorganisation costs	20.7	3.4
Other Europe	continuing				
	Scandinavia & The Netherlands	iii	reorganisation costs	3.6	2.7
	FTi	iii	reorganisation costs	–	3.0
North America	continuing				
	NALG	iii	reorganisation costs	–	4.0
Joint ventures	continuing				
	FTi	iv	deposits and hotel guarantees	–	11.3
				24.3	32.2

i The cost of early termination of the charter of the Apollon cruise ship by Direct Holidays which was in place at the time of the acquisition of Direct Holidays PLC.

ii The compensation for loss of office of Mr A H Coe and Mr H H Collinson who retired from their executive roles during 2000.

iii The costs associated with the reorganisation and restructuring of certain businesses in the UK and Scandinavia including the restructuring of the Group's retail operations in these areas. The comparative costs for 2000 relate to reorganisation and restructuring of the Group's businesses in the UK, Netherlands, Germany and North America.

iv The Group's share of exceptional items in FTi relating to the impairment of certain deposits and hotel guarantees in place prior to Airtours taking full control on 4 September 2000.

Notes to the accounts continued

3 Cost of sales and net operating expenses	Continuing operations 2001 £m	Acquisitions 2001 £m	Discontinued operations 2001 £m	Total 2001 £m	Continuing operations 2000 £m	Discontinued operations 2000 £m	Total 2000 £m
Cost of sales	4,210.3	12.4	22.3	4,245.0	3,205.0	148.5	3,353.5
Net operating expenses							
Selling and marketing costs	307.1	2.1	–	309.2	217.5	4.1	221.6
Administrative expenses	428.2	7.1	–	435.3	317.2	5.7	322.9
	735.3	9.2	–	744.5	534.7	9.8	544.5

Included within cost of sales are £nil of exceptional items (2000: £5.6m) relating to continuing operations. Included within administrative expenses are £24.3m of exceptional items (2000: £15.3m), relating to continuing operations.

4 Finance charges (net)	2001 £m	2000 £m
Interest payable on		
– bank borrowings	(13.2)	(11.1)
– other borrowings	(17.0)	(23.2)
Share of Joint ventures' and Associates' interest payable (see note 1 (g))	(0.1)	(9.2)
Amortisation of issue costs relating to Convertible Bonds	(2.0)	(2.0)
Finance charges in respect of finance leases	(3.4)	(4.2)
	(35.7)	(49.7)
Interest capitalised	0.6	4.8
	(35.1)	(44.9)
Bank interest receivable	32.7	38.2
	(2.4)	(6.7)

5 Profit on ordinary activities before tax	2001 £m	2000 £m
The profit on ordinary activities is stated after charging/(crediting):		
Auditors' remuneration for audit services	1.2	1.2
Depreciation of tangible fixed assets		
– owned	71.2	67.5
– held under finance leases	2.6	6.6
Amortisation of goodwill	31.8	13.3
Operating lease payments		
– hire of aircraft and aircraft spares	144.0	128.1
– other	78.3	63.0
Exceptional operating items (see note 2)	24.3	32.2
Profit on sale of tangible fixed assets	(22.8)	(13.9)
Losses on terminated operations (see note 1 (e))	3.9	32.3
Costs of a fundamental reorganisation (see note 1 (f))	11.3	37.3
E-commerce costs	15.2	10.6

In addition to fees paid to the auditors for audit services, fees for non-audit services paid by the Company and its UK subsidiary undertakings amounted to £7.2m (2000: £3.6m).

6 Directors and employees

	2001 £m	2000 £m
Staff costs during the year were as follows:		
Wages and salaries	464.6	392.2
Social security costs	42.4	40.8
Other pension costs (see note 29)	16.8	11.0
	523.8	444.0

The average number of employees of the Group during the year was 27,968 (2000: 24,316).

Disclosures on Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the UK Listing Authority are on pages 19 to 23 within the Remuneration report and form part of these audited accounts.

7 Tax on profit on ordinary activities

		2001 £m	2000 £m
The tax charge is based on the profit for the year and is made up as follows:			
UK	corporation tax at 30% (2000: 30%)	14.1	21.5
	deferred tax	11.6	4.2
		25.7	25.7
Overseas	corporation tax	10.7	9.3
	deferred tax	(5.9)	9.3
	tax on share of profits/(losses) of Joint ventures and Associates	2.3	(8.9)
		32.8	35.4
Adjustments in respect of prior years			
UK	corporation tax	5.8	(1.4)
	deferred tax	(8.3)	(7.5)
Overseas	corporation tax	–	0.7
	tax on share of losses of Joint ventures and Associates	–	(2.2)
		30.3	25.0

8 Profit for the financial year

The Company, as parent company of the Group, has taken advantage of the exemption included in section 230 of the Companies Act 1985 and has not included its own profit and loss account in these accounts. The profit after tax of the Company amounted to £6.8m (2000: £10.3m).

9 Dividends

	2001 £m	2000 £m
Equity dividends: ordinary		
Interim dividend of 2.00p per share paid 15 June 2001 (2000: 1.80p)	9.8	8.6
Final dividend of 7.50p per share payable 4 April 2002 (2000: 7.20p)	36.9	35.5
Dividends paid and proposed to be paid to Employee Share Ownership Plan Trusts (ESOP) shares	(0.1)	(0.2)
	46.6	43.9

Notes to the accounts continued

10 Earnings per share

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

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

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

	Earnings £m	2001 Weighted average number of shares millions*	Per share amount p	Earnings £m	2000 Weighted average number of shares millions*	Per share amount p
Basic earnings per share						
Profit attributable to ordinary shareholders	30.8	490.2	6.28	171.3	476.4	35.98
Effect of dilutive securities:						
Options	–	2.1	(0.02)	–	2.5	(0.19)
Convertible Bonds**	–	–	–	15.0	67.7	(1.69)
Diluted earnings per share						
Adjusted profit	30.8	492.3	6.26	186.3	546.6	34.10

* The number of shares has been reduced by 1.8m being the weighted average number of shares held by the employee share ownership trusts (2000: 2.9m).

** The Convertible Bonds are antidilutive and have been ignored in the calculation of diluted earnings per share for 2001.

	Earnings £m	2001 Weighted average number of shares millions	Per share amount p	Earnings £m	2000 Weighted average number of shares millions	Per share amount p
Supplementary earnings per share to exclude goodwill amortisation and exceptional items						
Basic earnings per share	30.8	490.2	6.28	171.3	476.4	35.98
Effect of goodwill amortisation	31.8	–	6.50	13.3	–	2.79
Basic earnings per share pre-goodwill amortisation	62.6	490.2	12.78	184.6	476.4	38.77
Exceptional items (including tax effect of £nil; 2000: £6.7m)	16.7	–	3.40	(141.2)	–	(29.65)
Basic earnings per share pre-goodwill amortisation and exceptional items	79.3	490.2	16.18	43.4	476.4	9.12
Diluted earnings per share	30.8	492.3	6.26	186.3	546.6	34.10
Effect of goodwill amortisation	31.8	–	6.46	13.3	–	2.43
Diluted earnings per share pre-goodwill amortisation	62.6	492.3	12.72	199.6	546.6	36.53
Exceptional items (including tax effect of £nil; 2000: £6.7m)	16.7	–	3.39	(141.2)	–	(25.84)
Diluted earnings per share pre-goodwill amortisation and exceptional items	79.3	492.3	16.11	58.4	546.6	10.69

11 Intangible assets – goodwill

	Group £m	Company £m
Cost		
At 1 October 2000 (restated*)	553.4	–
Additions (see note 13)	36.5	0.5
Adjustments to provisional fair values (see note 13)	4.9	–
Adjustments to deferred consideration (see note 13)	(5.7)	–
Reclassification of investments (see note 13)	1.2	–
Disposals	(1.5)	–
Exchange differences	0.6	–
At 30 September 2001	589.4	0.5
Amortisation		
At 1 October 2000 (restated*)	18.6	–
Provided in year	30.1	–
Impairment	0.6	–
Disposals	(0.2)	–
Exchange differences	0.1	–
At 30 September 2001	49.2	–
Net book value at 30 September 2001	540.2	0.5
Net book value at 30 September 2000 (restated*)	534.8	–

* Cost and amortisation at 1 October 2000 have been reduced by £22.8m and £0.2m respectively to reflect goodwill reclassified to joint venture and associated undertakings (see note 13).

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

12 Tangible fixed assets

	Total £m	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Cruise ships £m	Other fixed assets £m
Group						
Cost						
At 1 October 2000	792.8	196.9	48.9	216.4	74.4	256.2
Additions	128.1	17.5	10.3	33.6	6.5	60.2
Acquisition of subsidiary undertakings	2.4	0.6	0.2	–	–	1.6
Exchange differences	5.3	5.1	(0.4)	(0.9)	–	1.5
Disposals	(112.5)	(38.0)	(3.0)	(12.7)	(20.7)	(38.1)
Disposal of subsidiary undertakings	(73.7)	(58.1)	–	–	–	(15.6)
At 30 September 2001	742.4	124.0	56.0	236.4	60.2	265.8
Depreciation						
At 1 October 2000	279.3	23.2	19.4	81.8	26.9	128.0
Provided in year	73.8	6.0	6.0	29.3	5.1	27.4
Aquisition of subsidiary undertakings	0.1	–	–	–	–	0.1
Exchange differences	1.6	0.9	(0.3)	0.5	–	0.5
Disposals	(38.2)	(3.3)	(1.3)	(4.3)	(10.0)	(19.3)
Disposal of subsidiary undertakings	(5.3)	(4.0)	–	–	–	(1.3)
At 30 September 2001	311.3	22.8	23.8	107.3	22.0	135.4
Net book value at 30 September 2001	431.1	101.2	32.2	129.1	38.2	130.4
Net book value at 30 September 2000	513.5	173.7	29.5	134.6	47.5	128.2

Notes to the accounts continued

12 Tangible fixed assets continued	Total £m	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Cruise ships £m	Other fixed assets £m
Company						
Cost						
At 1 October 2000	92.0	2.6	2.3	–	–	87.1
Additions	28.5	–	0.3	–	–	28.2
Transfers from subsidiary undertaking	1.1	–	–	–	–	1.1
Disposals	(3.8)	–	–	–	–	(3.8)
At 30 September 2001	117.8	2.6	2.6	–	–	112.6
Depreciation						
At 1 October 2000	53.8	0.1	1.0	–	–	52.7
Provided in year	7.8	–	0.2	–	–	7.6
Transfers from subsidiary undertaking	0.8	–	–	–	–	0.8
Disposals	(2.5)	–	–	–	–	(2.5)
At 30 September 2001	59.9	0.1	1.2	–	–	58.6
Net book value at 30 September 2001	57.9	2.5	1.4	–	–	54.0
Net book value at 30 September 2000	38.2	2.5	1.3	–	–	34.4

Freehold land, amounting to £24.7m (2000: £34.5m) for the Group and £2.6m (2000: £2.2m) for the Company, has not been depreciated.

The cost of tangible fixed assets stated above includes capitalised interest of £7.9m for the Group (2000: £7.9m) and £0.3m for the Company (2000: £0.3m).

	Group 2001 £m	Group 2000 £m
The net book value of assets held under finance leases, none of which relate to the Company, included above is made up as follows:		
Land and buildings	3.0	4.1
Aircraft spares	11.7	12.1
Cruise ships	27.5	40.1
Other fixed assets	1.3	0.2
	43.5	56.5

13 Fixed asset investments

	Total £m	Own shares held under trust £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Group						
Cost						
At 1 October 2000	37.9	10.9	–	21.9	1.4	3.7
Additions	22.8	–	–	–	14.9	7.9
Adjustments to provisional fair values	(7.2)	–	–	(7.2)	–	–
Exchange differences	1.7	–	–	0.9	0.8	–
Reclassifications	(1.5)	–	–	–	–	(1.5)
Transfers to participants	(2.2)	(2.2)	–	–	–	–
Disposals	(0.8)	–	–	–	(0.7)	(0.1)
Disposal of subsidiary undertaking to joint venture	(0.1)	–	–	(0.1)	–	–
Dividends received from associated undertakings	(0.7)	–	–	–	(0.7)	–
Share of profits	3.6	–	–	1.6	2.0	–
At 30 September 2001	53.5	8.7	–	17.1	17.7	10.0
Amounts written off						
At 1 October 2000	5.2	5.2	–	–	–	–
Written off in the year	0.3	0.1	–	–	–	0.2
At 30 September 2001	5.5	5.3	–	–	–	0.2
Goodwill						
At 1 October 2000 (restated*)	22.6	–	–	17.5	5.1	–
Additions	12.4	–	–	–	12.4	–
Adjustments to provisional fair values	7.2	–	–	7.2	–	–
Disposals	(4.8)	–	–	–	(4.8)	–
Amortisation	(1.7)	–	–	(1.2)	(0.5)	–
At 30 September 2001	35.7	–	–	23.5	12.2	–
Net book value at 30 September 2001	83.7	3.4	–	40.6	29.9	9.8
Net book value at 30 September 2000 (restated*)	55.3	5.7	–	39.4	6.5	3.7

	Total £m	Own shares held under trust £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Company						
Cost						
At 1 October 2000	554.0	5.5	519.7	28.8	–	–
Additions	99.5	–	99.5	–	–	–
At 30 September 2001	653.5	5.5	619.2	28.8	–	–
Amounts written off						
At 1 October 2000	2.1	2.1	–	–	–	–
Written off in the year	0.1	0.1	–	–	–	–
At 30 September 2001	2.2	2.2	–	–	–	–
Net book value at 30 September 2001	651.3	3.3	619.2	28.8	–	–
Net book value at 30 September 2000	551.9	3.4	519.7	28.8	–	–

*Goodwill at 1 October 2000 in joint venture undertakings has been increased by £17.5m and in associates by £5.1m to reflect amounts previously included within Group goodwill.

Own shares held under trust Shares of the Company are held under trust by Airtours Trustee Limited as part of a long-term incentive plan for employees, excluding Directors, and by Mourant & Co Trustees Limited as part of a long-term incentive plan for employees of Travel Services International, Inc.

The number of shares held at 30 September 2001 by Airtours Trustee Limited and Mourant & Co Trustees Limited was 44,118 (2000: 1,059,005) and 1,612,500 (2000: 1,612,500) respectively. These shares had a market value at that date of £2.7m (2000: £5.7m).

Notes to the accounts continued

13 Fixed asset investments continued

Subsidiary undertakings

A list of principal subsidiary, joint venture and associated undertakings is shown in note 32 to the accounts on pages 54 and 55. All of the subsidiary undertakings have been consolidated in the Group accounts.

During the year the Group made a number of acquisitions of retail businesses in Canada and also expanded operations in USA and Scandinavia. The major classes of assets and liabilities acquired are set out in the table on page 41.

Based on the results achieved and expectations of future performance, the provisions for deferred consideration relating to Total Travel Marketing and Avion Travel, which were acquired in 2000, have been reduced by £5.4m and £1.4m respectively. During the year the Group made an additional payment of £1.1m in respect of deferred consideration relating to the acquisition of the Group's 90% interest in Servicios de Administracion y Operacion de Hoteles SA, de CV, the operators of the Blue Bay Resorts chain. This amount had not been recognised previously and consequently has been added to the goodwill arising on the acquisition of this subsidiary undertaking.

Following a detailed review of operations undertaken during the current year, the provisional fair values attributed to the net assets at acquisition of Travel Services International Inc and FTi have been revised resulting in an increase in the goodwill attributable to the acquisition of these businesses of £1.5m and £3.4m respectively. The adjustment of £1.5m in respect of TSI relates principally to creditors. Those relating to FTi include adjustments to the fair value of creditors of £3.0m and to the valuation of investments of £0.3m.

Included in the assets acquired with FTi in 2000 are the businesses of Reiseburo Koch Ubersee GmbH and Reiseburo Kimmel GmbH. These businesses were not consolidated by FTi as they were deemed to be held only for subsequent disposal and were classified as fixed asset investments. During the current year it was decided that these businesses would form part of the continuing operations of the Group and as a result they have been consolidated into the Group's accounts from 1 October 2000. The effect of this change is to reduce the value of other investments by £1.5m and to increase the Group's goodwill by £1.2m and net assets by £0.3m.

During the year, as a result of its decision to cease operations in Belgium and France, the Group disposed of its 49% interests in Maretours NV and Sherpa NV and of the business and certain assets of Holiday Store NV. The total consideration received in respect of these transactions was £1.9m and the total profit on disposal included within exceptional items in the Profit and Loss Account was £0.4m.

As part of the reorganisation of FTi, the Group has disposed of its interest in Sidegambia Investments Ltd, Hispanitalia Srl and Caoba Tours C.Por.A. The total consideration received (net of inter company loans repaid) was £1.7m and the total loss on disposal included within exceptional items in the Profit and Loss Account was £0.7m.

13 Fixed asset investments continued

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

	Total fair value to the Group £m
Fixed assets	
Tangible	2.3
Current assets	
Debtors	6.3
Cash and deposits	6.1
Total assets	14.7
Creditors	
Overdrafts	(0.2)
Borrowings	(0.6)
Finance leases	(0.2)
Tax	(0.1)
Other creditors	(13.1)
Total liabilities	(14.2)
Net assets	0.5
Goodwill arising on acquisitions in the year	36.5
Consideration	37.0

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

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

	Total £m
Cash	30.5
Contingent consideration	5.4
Costs	1.1
	37.0

In addition to the £30.5m cash consideration noted above, £1.1m was paid in respect of contingent consideration previously unprovided.

Notes to the accounts continued

13 Fixed asset investments continued

Joint venture undertakings The investment in joint venture undertakings at 30 September 2001 represents a 50% interest in Hotetur Club, S.L., a hotel group based in Palma, Majorca and a 50% equity interest in Tenerife Sol S.A., a hotel operator, incorporated and operating in Spain.

The Hotetur joint venture was acquired in September 2000. Following a detailed review of operations undertaken during the current year, the provisional fair values attributed to the assets at acquisition have been revised resulting in an increase in the goodwill of £7.2m. The principal elements of these adjustments relate to a reduction in the fair value of fixed assets of £28.3m and of the related deferred tax credit of £13.7m.

On 18 September 2001 the Group disposed of its investment in White Horse Mallorca Properties S.L., the operator of the Bellevue Hotel complex, to Hotetur for a nominal consideration. The book and fair value of the Group's investment transferred to Hotetur, being effectively 50% of the book value of the company, was £(0.1)m. As a result of costs attributable to the transaction of £0.1m, no gain or loss to the Group arose on the transaction.

The Group's share of its joint ventures' net assets at 30 September 2001 is made up as follows:

	2001 £m	2000 £m
Fixed assets	56.4	38.8
Current assets	16.6	14.6
Gross assets	73.0	53.4
Liabilities due within one year	(18.8)	(11.5)
Liabilities due after one year	(37.1)	(20.0)
Total net assets	17.1	21.9

Associated undertakings The investment in associated undertakings at 30 September 2001 represents a 19.99% interest in Aqua Sol, a hotel group based in Cyprus.

The Company acquired its interest in Aqua Sol on 7 June 2001 for a cash payment of £27.2m. The interest consists of 51,574,200 of the existing shares in Aqua Sol and warrants over 5,160,000 shares exercisable in October 2004 at a price of 75 Cypriot cents. The market value of our investment at 30 September 2001 was £22.4m.

The total consideration in respect of the acquisition of Aqua Sol is arrived at as follows:

	2001 £m
Share of net assets acquired	14.9
Goodwill on acquisition	12.4
Total consideration	27.3
Represented by	
Cash	27.2
Costs	0.1
	27.3

On 25 September 2001 the Group disposed of its 40% interest in Berge & Meer for a consideration of 18m DM. The profit on disposal was £0.2m. No material tax charge arose on this disposal.

Other investments Other investments in 2001 and 2000 are all unlisted and included at cost less provision for impairment.

The addition during the year relates to the Group's investment, as a member of the Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises loan notes bearing interest at a rate of 8% or 11%. The investment is non-recourse.

14 Stocks

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Vacation Ownership apartments held for resale	0.6	4.5	–	–
Goods held for resale	10.7	11.2	4.2	3.2
Consumables	2.0	1.5	–	–
	13.3	17.2	4.2	3.2

15 Debtors: amounts falling due within one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Trade debtors	132.1	142.2	2.3	8.0
Amounts owed by subsidiary undertakings	–	–	1,583.7	1,630.1
Amounts owed by joint venture and associated undertakings	19.3	1.4	19.2	0.2
Current and deferred tax	–	–	3.7	9.3
Other debtors	107.3	102.6	25.7	23.6
Deposits and prepayments	398.8	305.4	201.8	133.3
	657.5	551.6	1,836.4	1,804.5

16 Debtors: amounts falling due after one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Amounts owed by associated undertakings	18.6	–	–	–
Other debtors	48.9	29.0	1.5	–
Deposits and prepayments	113.5	131.6	74.2	107.0
	181.0	160.6	75.7	107.0

17 Cash and deposits

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Cash at bank and in hand	176.2	262.0	24.2	49.1
Term deposits	202.4	531.3	46.4	487.4
	378.6	793.3	70.6	536.5

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

Notes to the accounts continued

18 Creditors: amounts falling due within one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Loans and overdrafts (see note 19)	16.9	33.8	13.7	24.4
Trade creditors	359.0	462.6	76.5	54.8
Amounts owed to subsidiary undertakings	–	–	1,581.4	1,694.3
Amounts owed to joint venture undertakings	0.7	0.1	0.7	0.1
Current tax	71.2	42.6	–	–
Social security and other taxes	17.2	16.6	7.6	4.9
Other creditors	49.9	88.5	8.7	21.2
Dividends	37.0	35.5	37.0	35.5
Accruals and deferred income	330.2	250.5	37.0	32.2
Amounts due under finance leases (see note 19)	10.4	10.3	–	–
Revenue received in advance	310.8	333.4	132.1	134.2
	1,203.3	1,273.9	1,894.7	2,001.6

19 Creditors: amounts falling due after one year

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Convertible debt				
5.75% Subordinated Convertible Bonds due 2004	271.3	285.3	271.3	285.3
Long-term borrowings				
US$ 30 million of 7.48% unsecured senior notes repayable 2006	20.4	–	20.4	–
US$ 40 million of 8.11% unsecured senior notes repayable 2008	27.2	–	27.2	–
US$ 30 million of 8.32% unsecured senior notes repayable 2011	20.4	–	20.4	–
	68.0	–	68.0	–
Other creditors				
Loans	–	263.0	–	263.0
Trade creditors	0.8	0.6	–	–
Other creditors	27.9	35.3	–	–
Accruals and deferred income	60.6	69.2	3.9	3.8
Amounts due under finance leases (see page 45)	32.0	42.0	–	–
	189.3	410.1	71.9	266.8
	460.6	695.4	343.2	552.1
Loans and overdrafts				
Long-term borrowings	68.0	–	68.0	–
Bank loans	13.0	280.4	13.0	280.4
Other loan	–	0.1	–	–
Overdrafts	0.2	3.7	–	–
Unsecured loan notes	3.7	12.6	0.7	7.0
	84.9	296.8	81.7	287.4
Less: amounts falling due within one year	(16.9)	(33.8)	(13.7)	(24.4)
Amounts falling due after one year	68.0	263.0	68.0	263.0
Analysis of repayments				
Between one and two years	–	13.0	–	13.0
Between two and five years	20.4	250.0	20.4	250.0
After five years	47.6	–	47.6	–
	68.0	263.0	68.0	263.0

The £271.3m (2000: £285.3m) unsecured 5.75% Subordinated Convertible Bonds due 2004 are stated net of unamortised issue costs of £3.7m (2000: £5.7m).

The bonds can be converted at the option of the bondholder at any time between 31 January 1999 and 31 December 2003 into fully paid ordinary shares of 10p each of the Company at an initial conversion price of 443p per ordinary share but which is subject to adjustment in certain circumstances.

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

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

19 Creditors: amounts falling due after one year continued

In addition, the Company or any subsidiary undertaking of the Company may at any time purchase bonds in the open market or by private treaty or otherwise at any price, subject to the requirements (if any) of the UK Listing Authority. All bonds redeemed or converted or purchased by the Company or any subsidiary undertaking of the Company will be cancelled forthwith and may not be reissued or resold. During the year the Company purchased £16.0m (2000: £9.0m) of the bonds in the open market and such bonds have now been cancelled.

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

On 21 March 2000 the Company entered into a multi-currency unsecured revolving loan facility of £250m. The facility is for a term of three years. Amounts drawn down under the facility are charged to interest at a rate of LIBOR plus 0.4% per annum over an interest period as determined by the two parties. At 30 September 2000 £250m had been drawn down under the facility. During the year this amount was repaid and at 30 September 2001 no amount had been drawn down under the facility. The bank loan of £13.0m (2000: £30.4m) is an unsecured sterling loan, with a floating interest rate, repayable on 21 April 2002.

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

Of the £3.7m unsecured loan notes, £0.7m were issued by the Company following the acquisition of Direct Holidays PLC in July 1998. Interest is payable on these loan notes at 35 basis points below the base lending rate of Barclays Bank plc. £2.6m and £3.8m loan notes issued in respect of the acquisition of Direct Holidays and the Travelworld Group Limited were repaid during the year. The unsecured loan notes of £1.6m, issued in connection with the acquisition of Winston Rees (World) Travel Limited by Going Places Leisure Travel Limited in 1994 were repaid during the year. The £2.9m (2000: £4.0m) of outstanding loan notes issued by UKLG Limited in connection with the acquisition of Sunway Travel (Coaching) Limited were interest free until 1 November 2000 from when interest is payable at 75 basis points below the base lending rate of Barclays Bank plc.

	2001 £m	2000 £m
Finance leases		
Total outstanding	42.4	52.3
Less: amounts falling due within one year	(10.4)	(10.3)
Amounts falling due after one year	32.0	42.0
Analysis of repayments		
Between one and two years	11.2	11.6
Between two and five years	20.8	30.4
	32.0	42.0

20 Derivatives and other financial instruments

The Group's policies as regards derivatives and financial instruments are set out in the Operational and financial review on pages 9 and 10. The Group does not trade in financial instruments. Short-term debtors and creditors have been omitted from all disclosures other than the currency profile.

Maturity profile of financial liabilities The maturity profile of the Group's financial liabilities at 30 September 2001 and at 30 September 2000 was as follows:

	2001 £m	2000 £m
In one year or less	27.3	44.1
In more than one year but not more than two years	11.3	24.6
In more than two years but not more than five years	316.1	571.4
In more than five years	47.6	–
	402.3	640.1

Borrowing facilities The Group had £250.0m of undrawn committed borrowing facilities at 30 September 2001 (2000: £nil).

Notes to the accounts continued

20 Derivatives and other financial instruments continued

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

Financial liabilities

Currency	Total 2001 £m	Floating rate £m	Fixed rate £m	Interest free £m	Total 2000 £m	Floating rate £m	Fixed rate £m	Interest free £m
Sterling	331.4	56.4	275.0	–	636.2	345.1	291.0	0.1
US Dollar	68.0	–	68.0	–	–	–	–	–
Swedish Krona	2.9	2.9	–	–	3.9	3.9	–	–
Total	402.3	59.3	343.0	–	640.1	349.0	291.0	0.1

The sterling floating rate financial liabilities comprising bank borrowings and finance lease liabilities bear interest at rates based on LIBOR and in the case of loan notes based on bank base rate. These rates are fixed in advance for periods ranging up to six months. Included as a floating rate liability in 2000 are £4.0m of loan notes which, until 1 November 2000, were interest free.

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

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

The weighted average interest rate on the fixed rate US Dollar liabilities being the senior unsecured loan notes is 7.84%. The weighted average term to maturity is 7.3 years.

The weighted average period to maturity of the interest free loan in 2000 was seven months.

Financial assets

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

Currency	Total 2001 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m	Total 2000 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m
Sterling	193.0	180.4	7.9	4.7	597.3	590.1	–	7.2
US Dollar	70.0	63.0	7.0	–	49.4	43.3	6.1	–
Japanese Yen	49.8	49.8	–	–	–	–	–	–
Euro	49.5	49.2	–	0.3	78.4	76.6	–	1.8
Swedish Krona	6.6	6.2	–	0.4	21.4	21.0	–	0.4
Danish Krone	4.7	4.7	–	–	3.5	3.5	–	–
Swiss Franc	3.2	3.2	–	–	3.2	3.2	–	–
Other	28.4	28.4	–	–	63.0	63.0	–	–
Total	405.2	384.9	14.9	5.4	816.2	800.7	6.1	9.4

Financial assets comprise cash and deposits of £378.6m (2000: £793.3m), fixed asset investments other than associates and joint ventures of £13.2m (2000: £9.4m), and other debtors due in more than one year of £13.4m (2000: £13.5m). Fixed rate sterling investments of £7.9m comprise loan notes issued by NATS. The loan notes bear interest at a rate of 8% or 11% and have an average coupon rate of 8.3% and no maturity period. Non-interest bearing assets, other than £1.9m (2000: £3.7m) of unlisted shares, are fully liquid and have no maturity period.

Interest on floating rate bank deposits is based on the relevant national inter-bank rate and is fixed in advance for periods normally up to three months. The weighted average rate and period for fixed rate deposits are 3.45% and 50 days (2000: 5.85% and 10 days).

20 Derivatives and other financial instruments continued

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

	Total 2001 £m	US dollar £m	Other European currencies £m	Total 2000 £m	US dollar £m	Other European currencies £m
Functional currency						
Sterling	8.6	4.4	4.2	19.2	9.2	10.0

At 30 September 2001, the Group also held open various currency swaps and forward contracts that had been taken out to hedge expected future foreign currency sales.

Fair values Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities at 30 September 2001.

	2001 Book value £m	2001 Fair value £m	2000 Book value £m	2000 Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Short-term financial liabilities and current portion of long-term borrowings	27.3	27.3	44.1	44.1
Long-term borrowings	375.0	315.0	596.0	549.4
Financial assets	405.2	405.2	816.2	816.2
Derivative financial instruments held to manage the interest rate, fuel and currency profile				
Forward rate agreements and interest rate swaps	–	(11.4)	–	–
Forward fuel contracts	–	(12.7)	–	33.3
Forward foreign currency contracts and options	3.9	15.0	5.8	22.7

The fair values of forward rate agreements, interest rate swaps, fuel contracts, forward foreign currency contracts and sterling and US Dollar denominated long-term fixed rate debt with a carrying amount of £5,324.3m (2000: £5,330.3m) have been determined by reference to prices available from the markets on which the instruments are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

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

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

	2001			2000		
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges at 1 October 2000/1999	102.9	(46.9)	56.0	33.1	(32.6)	0.5
Gains and losses recognised in the year arising in previous years	(95.9)	44.5	(51.4)	(31.0)	32.6	1.6
Gains and losses arising in previous years not recognised in the year	7.0	(2.4)	4.6	2.1	–	2.1
Gains and losses not recognised in the year arising in the year	50.8	(64.5)	(13.7)	100.8	(46.9)	53.9
Unrecognised gains and losses at 30 September 2001/2000	57.8	(66.9)	(9.1)	102.9	(46.9)	56.0
Of which:						
Gains and losses expected to be recognised:						
in the year ending 30 September 2002/2001	50.1	(54.6)	(4.5)	95.9	(44.5)	51.4
after 30 September 2002/2001	7.7	(12.3)	(4.6)	7.0	(2.4)	4.6
	57.8	(66.9)	(9.1)	102.9	(46.9)	56.0

Notes to the accounts continued

21 Provisions for liabilities and charges

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Deferred tax	58.8	62.9	8.8	–
Other provisions	40.8	50.5	–	–
	99.6	113.4	8.8	–

Deferred tax

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
At 1 October	62.9	55.7	–	4.4
(Credited)/charged during the year	(2.6)	6.0	11.5	(7.0)
Transferred (from)/to debtors	–	–	(2.7)	2.6
Acquired with subsidiary undertaking	–	1.7	–	–
Disposal of subsidiary undertakings	(1.4)	–	–	–
Exchange differences	(0.1)	(0.5)	–	–
At 30 September	58.8	62.9	8.8	–

Deferred tax provided and the full potential liability for deferred tax are as follows:

	<----Provided----> 2001 £m	2000 £m	<----Potential----> 2001 £m	2000 £m
Group				
Accelerated capital allowances	47.5	51.1	55.5	60.0
Short-term timing differences	11.3	11.8	11.3	11.8
	58.8	62.9	66.8	71.8

	<----Provided----> 2001 £m	2000 £m	<----Potential----> 2001 £m	2000 £m
Company				
Accelerated capital allowances	(1.3)	(3.0)	(1.3)	(3.0)
Short-term timing differences	10.1	0.4	10.1	0.4
	8.8	(2.6)	8.8	(2.6)

Other provisions	Total 2001 £m	Total 2000 £m	Pension provisions 2001 £m	Pension provisions 2000 £m	Aircraft maintenance provisions 2001 £m	Aircraft maintenance provisions 2000 £m
At 1 October	50.5	44.4	7.8	6.3	42.7	38.1
Provided during the year	34.7	28.2	0.6	1.2	34.1	27.0
(Disposal)/acquisition of subsidiary undertaking	(0.7)	0.7	(0.7)	0.7	–	–
	84.5	73.3	7.7	8.2	76.8	65.1
Utilised in the year	(43.7)	(22.5)	(0.3)	(0.1)	(43.4)	(22.4)
Exchange differences	–	(0.3)	(0.6)	(0.3)	0.6	–
At 30 September	40.8	50.5	6.8	7.8	34.0	42.7

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

The aircraft maintenance provisions relate to contracted maintenance on leased aircraft and spares used by the Group's airlines. This expenditure arises at different times over the life of the aircraft. Neither the timing nor the value of the expenditure can be exactly determined but they can be averaged over a fleet and over time.

22 Share capital

	2001 £m	2000 £m
Authorised		
736,275,000 (2000: 736,275,000) ordinary shares of 10p each	73.6	73.6

	2001 £m	2000 £m
Allotted, called up and fully paid		
492,737,207 (2000: 491,229,693) ordinary shares of 10p each	49.3	49.1

Allotments during the year During the year 1,396,620 ordinary shares were allotted under the terms of the Airtours share option scheme (1986) for an aggregate cash consideration of £1,871,032 and 110,894 ordinary shares were allotted to Airtours Quest Trustee Limited for an aggregate cash consideration of £278,000 for transfer on to those members of the Airtours SAYE schemes who exercised their options.

Contingent rights to the allotment of shares Under the terms of the Airtours SAYE scheme 1999 options over 1,930,782 ordinary shares of 10p each were granted to certain employees within the Group at £2.34 per share exercisable normally between 1 August 2004 and 31 January 2005 in the case of three-year options and 1 August 2006 and 31 January 2007 in the case of five-year options.

At 30 September 2001 the following options to subscribe for ordinary shares of 10p each were outstanding:

Date of grant	Subscription price per share	Share option scheme (1986) Class 2	Share option scheme 1999	SAYE scheme
9 August 1993	124.64p	91,215	–	–
5 August 1994	149.50p	655,000	–	–
14 July 1995	135.67p	450,000	–	–
10 January 1997	194.70p	–	–	2,306,349
30 March 1999	395.00p	–	–	531,272
18 August 1999	421.50p	–	2,000,124	–
29 September 1999	392.00p	–	159,180	–
14 January 2000	402.00p	–	117,336	–
16 March 2000	203.14p	–	–	5,428,068
17 March 2000	290.50p	–	382,272	–
15 August 2000	290.50p	–	602,744	–
29 November 2000	207.50p	–	11,475,096	–
16 March 2001	287.50p	–	454,380	–
21 June 2001	234.20p	–	–	1,887,184

Options are normally exercisable in the following periods:

Share option scheme (1986) Class 2	between five years and ten years following the date of grant. The exercise of Class 2 options is dependent upon the percentage increase in eps of the Company calculated over any six consecutive accounting periods from (and including) the base year (being the most recent accounting period ending on a date prior to the grant date of such Class 2 options) being equal to or greater than the percentage increase in eps for the same period of the constituent company which, in terms of eps growth for the same period, ranks as the lowest of the top quartile in the FTSE 100 Index. The constituent companies are those companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index.
Share option scheme 1999	from the date that the option holder is informed that the performance condition has been satisfied until the later of the third anniversary and the sixth anniversary of the date of grant of the option.
Savings-related	between five years and five years and six months following the commencement date of the savings contract for options granted in 1997. between three years and three years and six months or between five years and five years and six months following the commencement date of the savings contract dependent on whether a three-year or a five-year savings contract is selected for options granted under the terms of the Airtours SAYE Scheme 1999.

Notes to the accounts continued

23 Reserves

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 1 October 2000	107.5	3.2	18.0	157.0
Transfer to Profit and Loss Account	–	–	–	(15.8)
Premium on allotments during the year	1.9	–	–	–
Transfer in respect of QUEST	0.1	–	–	(0.1)
Exchange differences	–	–	–	(8.8)
At 30 September 2001	109.5	3.2	18.0	132.3

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Company				
At 1 October 2000	107.5	3.2	153.6	174.2
Transfer to Profit and Loss Account	–	–	–	(39.8)
Premium on allotments during the year	1.9	–	–	–
Transfer in respect of QUEST	0.1	–	–	(0.1)
At 30 September 2001	109.5	3.2	153.6	134.3

During the year ended 30 September 2001, the Company received £278,000 (2000: £131,100) from the issue of shares in respect of the exercise of options under the Airtours SAYE schemes administered by the Qualifying Share Ownership Trust (QUEST). Employees paid £217,800 (2000: £49,300) to the Company for the issue of these shares and the balance of £60,200 (2000: £81,800) comprised contributions to the QUEST from the Company and is shown as a transfer from the Profit and Loss Account reserve to the share premium account.

Of the Company's reserves £134.3m (2000: £174.2m) are regarded as distributable.

The cumulative amount of goodwill arising from acquisitions in prior years which has been written off to Group reserves amounts to £432.8m (2000: £432.8m).

24 Non-equity minority interests

	Group 2001 £m	Group 2000 £m
Profit and loss account		
Preference dividend		
Paid during year	15.8	12.4
Accrual carried forward	1.4	1.5
Accrual brought forward	(1.5)	–
Costs amortised in year	1.0	0.9
	16.7	14.8
Balance sheet		
Cumulative undated preference shares at 1 October	210.0	–
Issued in year	–	210.0
Dividend accrual	1.4	1.5
	211.4	211.5
Issue costs at 1 October	3.9	–
Paid in year	–	4.8
Amortised in year	(1.0)	(0.9)
	2.9	3.9
At 30 September	208.5	207.6

The 210,000 7.51% cumulative undated preference shares each of £1 nominal value and £999 share premium were issued by Airtours Channel Islands Limited in 2000. The shares do not entitle the holders to any rights against other Group companies and are redeemable at any time at the option of Airtours Channel Islands Limited.

25 Reconciliation of operating profit to operating cash flows

	2001 £m	2000 £m
Operating profit	71.9	51.0
Depreciation charges	73.8	74.1
Goodwill amortisation	30.1	13.3
Profit on sale of investments	–	(1.2)
Provision against fixed asset investments	0.3	5.2
Decrease in stocks	3.1	2.8
Increase in debtors	(55.7)	(88.7)
(Decrease)/increase in creditors	(89.4)	75.9
(Decrease)/increase in provisions	(9.0)	5.7
Cash impact of the termination of operations	(17.2)	(1.9)
Cash impact of fundamental reorganisation	(18.4)	(2.3)
Net cash (outflow)/inflow from operating activities	(10.5)	133.9

The cash flow effect of the subsidiary undertakings acquired and disposed of during the year is set out in note 27 to the accounts.

26 Analysis of net (debt)/funds

	At 1 October 2000 £m	Cash (outflow)/ inflow £m	Acquisitions £m	Other non-cash changes £m	Exchange movements £m	At 30 September 2001 £m
Cash at bank and in hand	262.0	(79.8)	–	–	(6.0)	176.2
Term deposits	531.3	(328.9)	–	–	–	202.4
Cash and deposits	793.3	(408.7)	–	–	(6.0)	378.6
Overdrafts	(3.7)	3.1	–	–	0.4	(0.2)
Debt due within one year	(30.1)	27.0	(0.6)	(13.0)	–	(16.7)
Debt due after one year	(554.0)	199.6	–	13.0	(1.6)	(343.0)
Issue costs of Convertible Bonds due 2004	5.7	–	–	(2.0)	–	3.7
Finance leases	(52.3)	9.8	(0.2)	–	0.3	(42.4)
	158.9	(169.2)	(0.8)	(2.0)	(6.9)	(20.0)

27 Effects of acquisitions, disposals and closures

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

	Acquisitions £m	Disposals £m	Discontinued operations £m	Total £m
Cash (outflow)/inflow from operating activities	(2.5)	2.9	(26.9)	(26.5)
Returns on investments and servicing of finance	0.1	(2.1)	1.2	(0.8)
Tax	–	(0.1)	(1.4)	(1.5)
Capital expenditure (net) and financial investment	(0.4)	(2.5)	3.1	0.2
Financing	(0.6)	–	–	(0.6)
Decrease in cash in the period	(3.4)	(1.8)	(24.0)	(29.2)

Notes to the accounts continued

28 Financial commitments

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Capital commitments are as follows:				
Contracted but not provided in these accounts	8.2	15.2	3.3	0.2

In addition to those noted above, the Group's share of the capital commitments of its joint venture undertakings at 30 September 2001 was £1.8m (2000: £nil).

	Land and buildings 2001 £m	Land and buildings 2000 £m	Aircraft and aircraft spares 2001 £m	Aircraft and aircraft spares 2000 £m	Other 2001 £m	Other 2000 £m
Annual commitments under non-cancellable operating leases are as follows:						
Group						
Expiring in one year or less	4.9	2.9	3.5	17.4	2.4	1.9
Expiring between one and five years	18.1	12.9	72.3	53.6	8.4	8.4
Expiring in five years or more	38.3	40.1	55.1	78.7	5.8	5.9
	61.3	55.9	130.9	149.7	16.6	16.2
Company						
Expiring in one year or less	–	–	–	–	–	1.2
Expiring between one and five years	0.3	–	–	–	3.4	5.2
Expiring in five years or more	1.1	0.4	–	–	5.4	5.6
	1.4	0.4	–	–	8.8	12.0

29 Pensions

Employees of the Company and various of its UK subsidiary undertakings participate in the Company's defined contribution pension scheme. The total pension charge for the year amounted to £5.5m (2000: £4.7m). No amounts were outstanding at the year end. Other defined contribution schemes exist in the Group and the total pension charge for the year amounted to £5.9m (2000: £2.2m).

The Group also operates a number of defined benefit pension schemes, principally in Sweden and Norway. The total pension charge for the year relating to these schemes amounted to £5.4m (2000: £4.1m). In Sweden and Norway pension costs are accrued based on amounts prescribed by insurance companies with whom the obligation to provide pension benefits is contracted. The schemes are multi-employer schemes and as such it is not possible to identify our share of the underlying assets and liabilities.

30 Contingent liabilities and guarantees

At 30 September 2001 there were contingent liabilities under counter indemnities given to the Group's bankers and other third parties in the normal course of business in respect of CAA and other similar bonds, leases for aircraft and spares and other guarantees amounting to £664.8m (2000: £552.3m). The Group enters into foreign exchange contracts to hedge future foreign currency requirements. No liabilities are expected to arise on these contracts. In addition, the Company provides guarantees to certain of its subsidiary undertakings. No liabilities are expected to arise under these guarantees.

31 Related party transactions

During the year Airtours Holidays and Scandinavian Leisure Group purchased hotel accommodation amounting to £2.4m (2000: £2.1m) from Tenerife Sol, a joint venture undertaking. At 30 September 2001 the outstanding balances payable to Tenerife Sol amounted to £0.2m (2000: £0.1m). In addition, Airtours Holidays also purchased cabin accommodation and other cruise services from Carnival Cruises, a company in which Mr M M Arison, who was a Non-Executive Director of the Company until 1 June 2001, is interested by virtue of his shareholding in Carnival Corporation, the parent undertaking of Carnival Cruises, amounting to £1.8m (2000: £2.5m) during the year. At 30 September 2001 the outstanding amount payable to Carnival amounted to £0.2m (2000: £0.4m).

During the period in which Mr M M Arison was a Non-Executive Director of the Company, TSI sold accommodation and related services supplied by Carnival Corporation and its subsidiaries with a value of £5.3m (2000: £5.0m). At 30 September 2001 the amount receivable from Carnival was £0.3m (2000: £0.3m).

Airtours Holidays purchased hotel accommodation from Hotetur, a joint venture undertaking, amounting to £8.6m. The amount due to Hotetur at 30 September 2001 was £0.3m.

In 2000, Maretours NV, an associated undertaking of WELG Holding NV sold holidays operated by Sunair amounting to £4.5m. At 30 September 2000 the outstanding amount due from Maretours was £0.3m. The Group disposed of its investment in Maretours during 2001.

During the year, Berge & Meer, an associated undertaking of FTi, sold holidays operated by FTi amounting to £6.0m (2000: £0.2m). At 30 September 2000 an amount of £1.1m was outstanding from Berge & Meer. As explained in note 13 the Group disposed of its investment in Berge & Meer on 25 September 2001.

During the year Airtours Holidays and Scandinavian Leisure Group purchased hotel accommodation amounting to £8.8m from Aqua Sol, an associated undertaking. At 30 September 2001 the outstanding balances payable to Aqua Sol amounted to £0.2m.

On 18 September the Group disposed of its interest in White Horse Mallorca Properties S.L. (WHMP) to Hotetur S.L., its 50% joint venture. At the date of disposal an amount of £63.4m was outstanding in respect of loans from Group companies to WHMP. On 24 September an amount of £18.0m plus outstanding interest was repaid in respect of these loans. Of the £45.4m outstanding at 30 September 2001, a further amount of £18.6m was repaid in November 2001. Of the remaining amount £18.6m is repayable in ten equal instalments commencing 1 October 2005 and bears interest at EURIBOR plus 1%. The balance is being amortised against future purchases of hotel accommodation over the next four years. At 30 September 2001 an additional amount of £0.4m was due from WHMP in respect of management charges incurred whilst WHMP was a wholly owned subsidiary undertaking.

During 2000 Scandinavian Leisure Group purchased flight capacity amounting to £5.0m from Braathens ASA, a company listed on the Norwegian Stock Exchange, in which Mr P Braathen, who was an officer of various Group companies during that year, is interested by virtue of being chairman and major shareholder of two companies that between them control 39% of the shares in Braathens ASA. At 30 September 2000, £0.1m was outstanding. Premiair also incurred operational costs from Braathens in 2000 amounting to £5.0m of which £0.1m was outstanding at the year end. Mr Braathan ceased to be an employee of the Group during 2001.

During the year ended 30 September 1997 a loan facility of $40.0m was taken by Lake Eve from the British Linen Bank Limited, in respect of which 50% had been guaranteed by the Company. This facility was taken by Lake Eve at a time when Mr E F Sanderson, a Non-Executive Director of the Company, was Chief Executive of the British Linen Bank Limited and, accordingly, Mr Sanderson was interested in such transaction. The loan was repaid in its entirety on 31 December 1999 and the facility cancelled.

On 29 March 2000 the Group acquired the entire share capital of Sunway Travel (Coaching) Limited for a consideration of £23.1m. Until shortly before the date of the acquisition Mr R O Davies, who resigned as a Director of the Group on 17 April 2000, was a Director of both the Company and Sunway Travel (Coaching) Limited. Mr Davies was not a party to the acquisition agreement.

On 29 September 2000 the Group's interest in the share capital of Il Ponte SpA, was sold to a subsidiary undertaking of Carnival Corporation for a cash consideration of £350.0m. This was a related party transaction for the purposes of the UK Listing Rules by virtue of Mr M M Arison's shareholding in Carnival Corporation.

Notes to the accounts continued

32 Principal subsidiary, joint venture and associated undertakings

At 30 September 2001 the Group's principal subsidiary, joint venture and associated undertakings were:

		Country of incorporation and operation	Proportion held by parent company (%)	Proportion held by the Group (%)
Tour operators	Airtours Holidays Limited	England		100
	Bridge Travel Service Limited	England		100
	Cresta Holidays Limited	England		100
	Direct Holidays PLC	England		100
	Eurosites Limited	England		100
	Gate Eleven A/S	Denmark		100
	Globetrotter Sverige AB	Sweden		100
	Globetrotter Tour Production A/S	Denmark		100
	Panorama Holiday Group Limited	England		100
	Sunway Travel (Coaching) Limited	England		100
	Leger Holidays Limited	England		100
	Jetset Europe Limited	England		100
	Manos (UK) Limited	England		100
	Nowa Itaka Sp Z.o.o.	Poland		100
	North American Leisure Group Inc.	Canada		100
	Oy Tjareborg AB	Finland		100
	Sunquest Holidays Inc.	USA		100
	SunTrips Inc.	USA		100
	Tradewinds Worldwide Holidays Limited	England	100	
	Trivselresor AB	Sweden		100
	V E Holdings Inc.	USA		100
	Vingresor AB	Sweden		100
	Always AB	Sweden		100
	Ving Norge AS	Norway		100
	Saga Solreiser AS	Norway		100
	Oy Spies Matkat AB	Finland		100
	Ving A/S	Denmark		100
	Spies A/S	Denmark		100
	Tjaereborg Reiser A/S	Denmark		100
	Dutch Leisure Group Reisondernemingen BV	Holland		100
	BV Reisbureau Marysol	Holland		100
	Travel Trend BV	Holland		100
	Ving Sp. Z.o.o.	Poland		100
	Frosch Touristik GmbH	Germany	46	54
Hotel operators	Sunwing AB	Sweden		100
	Hoteles Sunwing S.A.	Spain		100
	Tenerife Sol S.A.	Spain		50
	Sunwing Hotels Hellas S.A.	Greece		100
	Sunwing Hotels (Cyprus) Limited	Cyprus		100
	Servicios de Administracion y Operacion de Hoteles S.A. de CV	Mexico		90
	Hotetur Club SL	Spain	50	
	Hoteles Don Pedro S.A.	Spain		100
	Airtours Resort Mallorca SL	Spain		100
	Aqua Sol Hotels Limited	Cyprus		19.99

32 Principal subsidiary, joint venture and associated undertakings continued

		Country of incorporation and operation	Proportion held by parent company (%)	Proportion held by the Group (%)
Cruise operators	Sun Cruises Limited	England	100	
Airlines	Airtours International Airways Limited	England		100
	Premiair A/S	Denmark		100
Travel retailers	Going Places Leisure Travel Limited	England		100
	The Travelworld Group Limited	England		100
	Late Escapes Limited	England		100
	Travel Services International, Inc.	*USA*		*100*
	WorldChoiceTravel.com, Inc.	USA		100
	Allkauf Touristik GmbH	Germany		100
Agency companies	Eurosites A/S	Denmark		100
	Eurosites GmbH	Germany		100
	Eurosites BV	Holland		100
	Eurosites Vacances S.A.	France		100
	Viagens Astral S.A.	Portugal		100
	Viajes Astral S.A.	Spain		100
	Viajes Astral Canarias S.A.	Spain		70
Insurance company	White Horse Insurance Ireland Limited	Ireland		100
Investment and/or holding companies				
	Airtours Finance Limited	Guernsey	100	
	Airtours Resort Ownership España SL	Spain		100
	Blue Sea Investments Limited	England	100	
	Blue Sea Overseas Investments Limited	England		100
	The BTN Finance Company	England		50
	Carousel Holidays Limited	England	100	
	Grandes Maisons Limited	England	100	
	CLG Holdings Inc.	Canada		100
	Parkway Holdings BV	Holland		100
	White Horse Holdings BV	Holland	100	
	Scandinavian Leisure Group Holdings AB	Sweden		100
	Scandinavian Leisure Group Leasing A/S	Norway		100
	Sun International (UK) Limited	England		100
	UKLG Limited	*England*	100	
	NALG Holdings	Ireland		100
	AB9807 Beteiligungsverwaltungs GmbH	Germany		100
	Parkway SA	Luxembourg		100
	Scandinavian Leisure Group AB	Sweden		100
	OY SLG Holdings AB	Finland		100
	Scandinavian Leisure Group Holdings AS	Norway		100
	Scandinavian Leisure Group Holdings A/S	Denmark		100
	MyTravel Luxembourg Sarl	Luxembourg		100
	Parkway IPR Limited	England	100	
	MyTravel IPR Ireland Limited	Ireland		100
	Dutch Leisure Group Holding BV	Holland		100

Auditors' report

To the shareholders of Airtours plc We have audited the financial statements of Airtours plc for the year ended 30 September 2001 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the Reconciliation of movements in Group shareholders' funds, the Accounting Policies and the related notes numbered 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom accounting standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statements reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Chief Executive's Review, Operational and Financial Review, Directors' Report, Corporate Governance Statements, Remuneration Report, Statement of Directors' Responsibilities and Five-year review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 30 September 2001 and of the Group's profit 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
27 November 2001

Five year review

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Profit and loss account					
Group turnover	5,061.4	3,949.0	3,309.3	2,753.4	2,235.6
Operating profit pre-goodwill and exceptional items	132.2	83.5	131.5	124.5	107.7
Profit on ordinary activities before tax, goodwill and exceptional items	129.8	76.8	131.5	125.7	117.2
Profit on ordinary activities before tax	81.3	211.4	125.9	125.7	117.2
Tax on profit on ordinary activities	30.3	25.0	32.3	31.6	29.2
Profit for the financial year	30.8	171.3	93.8	93.8	87.8
Dividends	46.6	43.9	39.4	36.2	31.1
Transfer (from)/to reserves	(15.8)	127.4	54.4	57.6	56.7
Balance sheet					
Goodwill	540.2	534.8	36.9	–	–
Tangible fixed assets	431.1	513.5	417.8	310.7	261.4
Investments	83.7	55.3	116.9	82.7	63.0
Cash and deposits	378.6	793.3	554.2	364.2	406.6
Stocks	13.3	17.2	11.4	17.0	6.4
Debtors	838.5	712.2	550.5	403.5	331.7
Creditors	1,663.9	1,969.3	1,379.5	937.7	747.2
Provisions for liabilities and charges	99.6	113.4	100.1	92.9	81.2
Net assets	521.9	543.6	208.1	147.5	240.7
Statistics					
Basic earnings per share	6.28p	35.98p	19.74p	21.14p	20.62p
Diluted earnings per share	6.26p	34.10p	19.53p	20.21p	19.12p
Basic earnings per share pre-goodwill and exceptional items	16.18p	9.12p	20.90p	21.14p	20.62p
Diluted earnings per share pre-goodwill and exceptional items	16.11p	10.69p	20.68p	20.21p	19.12p
Dividend per share	9.50p	9.00p	8.25p	7.50p	6.67p
Net assets per share	105.93p	110.69p	43.54p	31.07p	56.24p
Ratios					
Dividend cover	0.66	4.00	2.39	2.82	3.09
Dividend cover pre-goodwill and exceptional items	1.70	1.01	2.53	2.82	3.09
Share data					
Number of shares in issue – period end	492.7m	491.2m	477.9m	474.7m	428.0m
– average	490.2m	476.4m	475.4m	439.3m	413.5m
Diluted number of shares	492.3m	546.6m	480.5m	464.4m	458.9m
Share price					
High	335.50p	430.00p	544.50p	541.00p	413.33p
Low	110.00p	202.00p	287.50p	282.50p	197.83p
Average	255.41p	308.63p	435.67p	429.38p	315.49p

The figures for the years 1997 to 1999 have been restated to take account of a prior year adjustment as a result of the implementation of FRS 15 and UITF 24.

The figures for earnings, dividend and net assets per share, share data and share price information for 1997 have been restated to take account of the Capitalisation Issue to existing shareholders in 1998.

Diluted earnings per share for 1997 and 1998 has also been restated to take account of Financial Reporting Standard 14.

Shareholder information

Analysis of shareholders

At 30 September 2001 there were 8,468 shareholders registered compared with 8,412 at 30 September 2000.

Category	Number of holders	Shares held
Individuals	7,501	69,114,174
Life/Insurance funds	56	76,428,052
Pension funds	293	139,974,218
Unit trusts	83	101,239,041
Investment trusts	7	3,905,291
Overseas funds	162	83,058,411
Other	366	19,018,020
	8,468	492,737,207

Shareholders' benefits

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

First, you will be entitled to receive a discount of 10% off the published brochure price of any Airtours' holiday (including Airtours Holidays, Tradewinds, Bridge Travel, Cresta, Eurosites, Panorama, Aspro, Manos, Jetset (excluding seat only sales), Leger and Direct Holidays).

In addition, you will be able to take advantage of the following offers provided your booking is made at least 28 days prior to departure: when you are flying on an Airtours International flight the pre-bookable seats service will be offered to you free of charge, subject to availability. For each booking you make you will be presented with a free bottle of champagne to enjoy during your outbound flight. Unfortunately, if you are travelling with any other airline we are unable to offer these benefits. If you book one of our cruises on the MS Sundream, MS Sunbird, MS Carousel or MS Seawing, you will at the time of booking be upgraded to the next highest grade of cabin at no additional cost, but subject to the availability of both cabin types.

These benefits and discounts are available to you all year round and can only be arranged by calling the Shareholder Premier Line on 0870 161 6891 during normal working hours on any day of the week. Should you have any after sales enquiries please contact our Shareholder Premier Line customer services department on 0870 161 6899 during normal working hours on any week day and on Saturday mornings.

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

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

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

Corporate advisors

PRINCIPAL BANKERS

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

The Royal Bank of Scotland plc
Corporate & Institutional Banking
PO Box 538
100 Barbirolli Square
Manchester M60 3DU

Société Générale
Exchange House
Primrose Street
Broadgate
London EC2A 2HT

FINANCIAL ADVISERS

Deutsche Bank
Winchester House
1 Great Winchester Street
London EC2N 4DB

STOCKBROKERS

Deutsche Bank
Winchester House
1 Great Winchester Street
London EC2N 4DB

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

FINANCIAL COMMUNICATIONS

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

REGISTRARS AND TRANSFER OFFICE

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ

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

FINANCIAL CALENDAR

Annual General Meeting	7 February 2002
Transfer books close	1 March 2002
Final dividend payable	4 April 2002
Interim results announced	May 2002
Interim dividend payable	June 2002
Final results announced	November 2002

AIRTOURS PLC

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

Registered Number: 742748
Registered in England and Wales

Designed by Merchant with navyblue, printed in the UK by Royle Corporate Print

Airtours plc

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

Registered Number: 742748
Registered in England and Wales