742748

major player Airtours

major markets

ANNUAL REPORT AND ACCOUNTS 2000

15 MILLION CUSTOMERS

80 OPERATING BRANDS

29,000 EMPLOYEES
WORLDWIDE

2,600 TRAVEL SHOPS

48 TELESALES CENTRES

4 CRUISE SHIPS

52 AIRCRAFT

93 RESORT PROPERTIES

E-COMMERCE
STRATEGY LAUNCHED

Airtours is a major player in four of the world's most active markets for air-inclusive holidays and other leisure travel products: the UK, Scandinavia, Germany and North America. We distribute through a range of retail outlets, telephone and e-commerce channels; operate tours for a wide range of customers to destinations worldwide; have our own fleet of aircraft and cruise ships, with a focused portfolio of hotels and other resort properties.

highlights

TURNOVER

up 18% to £4,434.8 million

1999 – £3,771.3 million

GROUP PROFIT

BEFORE TAX AND GOODWILL AMORTISATION

£224.7 million

1999 – £127.0 million

FINAL DIVIDEND

7.20p

GIVING A TOTAL FOR THE YEAR OF

9.00p

STRONG

UNDERLYING PERFORMANCE

IN THE UK

AND SCANDINAVIA

chairman's statement

We are continuing to build on our market leading positions in the UK, Scandinavia and North America. We have increased our sustainable passenger volumes, broadened our product portfolio and restructured our core operations to improve their efficiency and cost effectiveness. We will continue to expand our modular non-risk businesses, particularly in North America, where we expect to see strong growth in this market sector. We will develop mytravelco as a global multi-channel travel service which will increase revenues, reduce our cost base and allow us to increase customer loyalty through a better understanding of, and ability to satisfy, customer needs.

The results for the twelve months to 30 September 2000 reflect strong underlying performance in our principal markets in the UK and Scandinavia, offset by a disappointing performance from our German business. It was a challenging year and a year of change for Airtours and, unfortunately, a year of reduced profits. I believe Airtours has come through this a stronger, leaner and more focused company, giving us huge competitive advantage going forward.

The Board is recommending a final dividend of 7.20p per share, which, together with the interim dividend of 1.80p per share, gives a total dividend of 9.00p for the year, an increase of 9% over last year.

Basic earnings per share was 35.98p in 2000, compared with 19.74p in 1999, an increase of 82%. The diluted earnings per share on the same basis was 34.10p compared with 19.53p in 1999, an increase of 75%. Basic earnings per share before exceptional items and goodwill amounted to 9.12p compared with 20.90p in 1999. The equivalent diluted earnings per share was 10.69p in 2000 compared with 20.68p in 1999.

This year we refocused our resources into those of our businesses that provide long term sustainable profit growth. We increased our efforts on efficiency improvements to increase margins in our UK and Scandinavian operations and took full control of FTi in Germany. In North America we acquired TSI, which gave us a number of market leading positions in the leisure travel market, and we reorganised our charter operations and increased our distribution capabilities. At the same time we ceased our businesses in Belgium and France and reduced our Vacation Ownership operations as part of a controlled exit from this market.

In September 2000, we were presented with an opportunity to sell our 50% interest in Costa Crociere to Carnival Corporation for a profit of £235.8m, having acquired our interest in 1997 for £24.7m. We felt it appropriate to dispose of this investment to enable the Group to invest in new businesses which will give further profit growth and positive cash flow.

I am pleased to announce that with immediate effect Tim Byrne will assume the role of Chief Executive, with responsibility for all of the day-to-day operations of the Group. I will continue as Executive Chairman to oversee the whole Group and set strategic direction. In the UK, Richard Carrick will become Chief Executive of our UK businesses and join the Board. Duncan Wilson, Managing Director of Direct Holidays, will become Deputy Chief Executive of the UK businesses. We have also appointed a new Chief Executive of our German operations. Following a very successful restructuring of NALG and the acquisition of TSI, we have decided to combine these businesses under the leadership of Peter McHugh who joined the Group as Chief Executive Officer of TSI in April 2000. Peter McHugh will also join the Board.

The Group has undergone enormous change this year and I would like to take this opportunity to thank all staff for their efforts, dedication and support.

Our focus on improving the efficiency of our core charter businesses in the UK and Scandinavia will ensure that we are able to achieve the best margins in the industry. We are determined to turn around our German operations and return them to profit, and in North America we are excited by the future growth prospects of TSI and our restructured charter operations.

I am confident that the strategic plans and actions initiated during the last twelve months together with the current strong forward bookings position means Airtours is well placed to resume its profitable growth.

DAVID CROSSLAND CHAIRMAN

chief executive's review

Airtours is already established as one of the world's leading leisure travel companies. We have strengthened vertical integration, investing in new and more efficient aircraft, expanding our interests in quality hotel accommodation, particularly in key destinations in Spain and the Canary Islands, and developing further our distribution capabilities in both traditional and emerging channels. We have the financial strength and the skilled management necessary to continue the successful, profitable expansion of the Group.

results

Total turnover, including our share of the turnover of our joint ventures, increased by 18% from £3,771.3m to £4,434.8m. The profit before tax for this year amounted to of £211.4m (1999: £125.9m). During the year we invested £408.2m (1999: £30.4m) in acquiring new businesses and £224.3m in capital expenditure compared with £164.4m in 1999.

business performance

United Kingdom We had a successful year in the UK with increases in both turnover and profits from our continuing operations. A highly successful summer season, with an increased number of holidays sold at higher prices than the previous year more than compensated for the poor performance over the millennium period. This excellent result reflects the increase in sustainable passenger numbers achieved through organic growth and acquisitive expansion. While this has increased the total level of profits, we have seen a reduction in our average profit per passenger. During the year we took a number of decisions that will reduce the cost base of our UK businesses. We will continue to make further changes to restore profitability per passenger to ensure that we achieve the best margins in the industry and continued growth in sustainable profits.

As part of the continuing drive to increase efficiency and improve margins, and as part of an ongoing review of our distribution policy, we are relocating the head offices of our main retail companies and tour operating business to a single site in Rochdale. While this involved a one-off cost during the year, we expect to see a rapid payback through reduced overhead costs, improved operational efficiencies and more effective communication and decision making across our UK operations.

During the year we acquired Leger Holidays, a coach based tour operator; Manos, a charter based tour operator specialising in holidays to Greece and Turkey; and Jetset Europe, a scheduled based long haul operator. These acquisitions added 350,000 passengers to our customer base which, together with the organic growth of Direct Holidays and Panorama, make us the largest tour operator in the UK.

Scandinavia and Other Europe In Scandinavia, the market suffered lower demand than last year as a result of higher brochure prices as tour operators attempted to cover fuel price rises and to compensate for a weak currency and the abolition of Duty Free sales. In addition, poor demand over the millennium period, which affected all markets, was particularly severe in Scandinavia, with bookings well down on the previous period.

Against this background our Scandinavian business maintained its market leading position and achieved a satisfactory result for the year. Following a slow start to summer 2000, demand for holidays recovered towards the end of the season allowing us to increase planned capacity while at the same time obtaining good prices in the late sales period.

During the year we transferred the control of our Dutch operations to the management of the Scandinavian Leisure Group (SLG) who have initiated an efficiency improvement programme to increase profitability. Our Belgian and French businesses, acquired with Bridge and Cresta as part of Sun International, have now been closed due to the lack of sustainable passenger volumes and weak market positions.

Germany While FTi achieved a rapid growth in the volume of charter passengers this year, it was not able to generate positive margins. This was due to increasingly difficult trading conditions arising from overcapacity in the German market, together with operational inefficiencies particularly in relation to poor utilisation of aircraft seats and guaranteed accommodation.

Since taking full control on 4 September 2000, we have appointed a new management team and refocused the business to achieve improved and sustainable margins rather than volume growth. We have already made significant progress and have rectified a number of the key operational inefficiencies including a substantial reduction in capacity and guaranteed accommodation, a reduction in the Fly FTi aircraft fleet from six to four and reduced overhead costs.

North America During the year we established a new and strengthened management team in North America to improve the underlying performance of our tour operations. This team has implemented a successful large-scale cost reduction programme and significantly rationalised the tour operating programmes to eliminate losses.

In March 2000, we acquired TSI, the largest cruise distributor in the world. In recent years TSI has developed industry leading e-commerce capabilities which will be further developed and used both within TSI and as a basis for e-commerce expansion across the whole Group. In addition, we acquired new businesses to strengthen our distribution capabilities in Canada.

accommodation

The control of long-term access to quality accommodation is essential to allow us to provide our customers with a wide choice of quality hotels and apartments thus ensuring high margin brochure bookings and repeat business.

As part of our strategy of investment in prime resort properties, we made a number of acquisitions during the year, such that today, Airtours operates a quality hotel portfolio consisting of 93 hotels with 48,000 beds making us one of the largest hotel operators in the Mediterranean.

e-commerce

Having acquired mytravelco.com as part of TSI we announced in May 2000 that we would develop mytravelco into a global travel service. The first step in the UK has been to build a new DirectHolidays.co.uk web site which was launched in October this year. The Direct Holidays site is fully transactional using sophisticated customer relationship management techniques and predictive software. We will be building on the knowledge acquired and techniques used to develop DirectHolidays.co.uk to ensure mytravelco is fully functional when it is launched next year. This year we also launched lateescapes.com, the UK's first holiday auction web site, which is proving popular with customers and is a low cost method of selling holidays close to departure.

outlook

We are pleased with the overall Group bookings position with total bookings for winter 2000/01 ahead of last year by 5% and bookings for summer 2001 ahead of last year by 4%.

Bookings in the UK for winter 2000/01 and summer 2001 are currently 13% and 8% ahead of last year respectively with an increased average selling price in both seasons. In Scandinavia, winter 2000/01 bookings are running 3% ahead of the prior year with higher average selling prices. Bookings for summer 2001 are 14% below the prior year, reflecting our decision to delay the launch of our brochures and marketing campaigns. In FTi, bookings for winter 2000/01 are 21% lower than the prior year reflecting reduced capacity but with average selling prices ahead of last year. Bookings for summer 2001 are 28% below last year reflecting the reduction in our capacity and we have seen an improvement in load factors. Bookings for winter 2000/01 in North America are 7% ahead of the prior year, and with reduced capacity, load factors are higher than last year. The summer 2001 brochures have yet to be launched.

summary

Airtours is already one of the world's leading leisure travel companies. We aim to build on this position and have established aggressive but achievable targets for growth over the next three years. We have set specific objectives in terms of profitability improvements, increasing the proportion of our business derived from modular non-risk operations and deriving significant financial benefits from the development of our e-commerce capabilities, particularly in relation to mytravelco.

We have the financial resources and highly motivated management necessary to deliver against these targets and I will ensure that all of our resources are utilised to their full potential to deliver continued successful expansion of the Group.

TIM BYRNE CHIEF EXECUTIVE

new opportunities and potential in the UK market

market review

Britons holiday abroad in huge numbers, buying over 12 million summer and 5 million winter packages every year. The strong UK economy allows people to spend more on holidays and the strong pound gives tour operators good international purchasing power.

Our large customer base gives us significant purchasing power when we negotiate with third party suppliers of beds, aircraft seats and in-resort services. This allows us to offer a very strong price proposition to our customers, who receive excellent value for money from our products.

During the year there has been a rapid increase in business taken over our telephone lines, as busy customers buy their holidays outside the normal working day. Customers now expect a lot more flexibility and convenience – from information and booking facilities to a local departure airport. That's one reason why we expanded in Ireland last year, flying customers from Dublin to thirteen top destinations and we now have a leading position in this market.

DISTRIBUTION

GOING PLACES	740 SHOPS
TRAVELWORLD	140 SHOPS
DIRECT DISTRIBUTION	20 CALL CENTRES 20 WEB SITES

TOUR OPERATING

CHARTER

AIRTOURS HOLIDAYS	4.8 MILLION PASSENGERS
DIRECT HOLIDAYS	
PANORAMA	
MANOS	

SPECIALISTS

JETSET	1.2 MILLION PASSENGERS
BRIDGE	
CRESTA	
TRADEWINDS	
EUROSITES	
LEGER	

AVIATION

AIRTOURS INTERNATIONAL

30 AIRCRAFT — 7,202 SEATS

ACCOMMODATION

GLOBALES	33 HOTELS/6,500 ROOMS
HOTETUR	20 HOTELS/4,700 ROOMS
SUN CRUISES	4 SHIPS/4,400 BERTHS

vertical integration in action

As part of our strategy to increase the efficiency of our operations, we opened our new shared service centre in Rochdale which combines many functions within our retail chains Travelworld and Going Places and our major UK tour operator Airtours Holidays.

The businesses will share common human resources, information technology, finance and other services, which will also be made available to other companies within the UK Group. The shared service centre, which has been equipped with the most advanced systems and facilities, is based at superb offices designed to provide a cost-effective, energy-saving environment. The location will accommodate 1,500 people and will allow us to develop a streamlined organisational structure enabling more effective and quicker communication and decision making across all of our UK businesses.

group synergies bring flexibility to Airline fleet

The ability to draw on the Group's aircraft fleet worldwide has enabled our UK airline, Airtours International, to flex its fleet size to match customer demand. Operating 30 aircraft in the UK, we have introduced two new A321's and one new A330 which will fly long haul in the summer. During the year, our new Crew Training Centre became fully functional, equipped with a full flight simulator and cabin crew simulator.

innovation drives our leadership position

Investment in new products and services has brought us to the number one UK position and delivered another successful year. The products we have developed in recent years are now paying off in increased businesses: Family First for young families – often first-time travellers; Suncentres, offering entertainment day and night; or Premier Gold superior class flights.

We aim to be first in the market with exciting new destinations – last year, we opened up direct flights to Brazil. Our new acquisition **Manos** enables us to offer customers a specialist tour operator serving a wide range of destinations in Greece.

Jetset, which serves Far Eastern and Australian destinations, is an addition to our non-charter based brands. This important sector of the market is growing at a faster rate than the mainstream charter business and covers many destinations, including some of the most exotic. **Leger**, also new to the portfolio, offers us an extended customer base and potential for growth in the expanding market for coach tours.

We are now well placed to cater for almost every household's leisure travel requirements – from City breaks to sun-soaked Mediterranean holidays, from Florida fun to Far Eastern magic. We are also providing innovative ways for our customers to choose from this huge array of products. Last year, we expanded our call centre capabilities and opened our first three travel hypermarkets; making buying a holiday more convenient and fun than ever before. Above all, we have invested in giving our customers a better service in the resorts. This year we restructured our in-resort operations to ensure our customer service team are free to concentrate solely on looking after our customers. The benefits, as customer satisfaction surveys show, are immediately visible.

hotels – a new chain in Spain

Last year we acquired Hoteles Don Pedro S.A., a Spanish hotel management company which now operates 33 hotels, 28 from the Globales group. This gives us access to a group of very attractive properties in sought-after locations in Spanish mainland and Balearic resorts, as well as the skills of an established hotelier in these key destinations, with good experience of the UK market.

restructure our German business

market review

Germany is the biggest market in the world for package holidays. In recent years the charter market has seen constant growth, but last year demand for short-haul destinations, particularly to Spain, remained flat, resulting in overcapacity. The overall market, however, remains very large and important to any major tour operator.

As in the UK, German customers traditionally take one long summer holiday a year. They are, however, increasingly looking to spend their annual holiday enjoying new experiences on other continents.

Travel agents are still the backbone of the holiday distribution system in Germany. Selling over the telephone is not yet as widespread as it has become in the UK. In the same way, internet sales are relatively new and there are big opportunities to develop direct methods of distribution.

coast-to-coast USA: all part of the service

Traditionally, German tourists have been flocking to the USA for their holidays. With perhaps only two weeks to see and do as much as possible, most people want a carefully organised schedule which will give them a few days in three or four different locations – which could be thousands of miles apart. FTi has particular strengths in the US market, where it has its own in-bound agency, specialising in putting together multi-site holidays which could extend from Manhattan to Las Vegas and the Grand Canyon; Cape Cod to San Francisco. All the hotel bookings, internal flights, car hire and other elements are taken care of – leaving the customer free to make the most of their dream holiday.

DISTRIBUTION

ALLKAUF

144 SHOPS

FTI

785 SHOPS

FLUGBÖRSE

175 SHOPS

5VF

38 SHOPS

DIRECT DISTRIBUTION

1 CALL CENTRE / 15 WEB SITES

TOUR OPERATING

FTi

CHARTER

1.2 MILLION PASSENGERS

MODULAR

1.1 MILLION PASSENGERS

AVIATION

FLY FTi

4 AIRCRAFT
720 SEATS

ACCOMMODATION

17 HOTELS

2,300 ROOMS

restructured FTi plays to its strengths

Now under the full ownership of Airtours, FTi is emerging from its reorganisation as a leaner and more efficient company, with all its proven strengths intact. The restructuring has involved creating two tour operating businesses, for charter and modular holidays respectively.

Before entering the charter market in 1996, FTi was established as a leading operator in modular holidays – combining scheduled flights and accommodation into customised packages. Today, this segment of the market, although relatively small, is growing faster than the charter segment, so FTi is well positioned to exploit the trend, especially in the US and Australia.

Although FTi has operated in the charter market for only a short period of time, it is particularly strong in destinations such as the Dominican Republic, Cuba, Egypt and Malta. Our strategy for this business is to reduce charter capacity to bring it more in line with the level of brochure sales over the past year, to avoid selling large numbers of holidays at discounted rates in the coming seasons.

We have also created separate business units for distribution and the Fly FTi charter operations. The number of aircraft has been reduced and a simplified flight programme introduced. This will enable us to outsource more flight capacity and to reduce the risk we carry at an uncertain time in the market. We have already set up long-haul agreements with LTU for flights to the Caribbean from summer 2001, and to the Canaries from winter 2000/1. Similarly, we have reduced our commitments to hotel beds in destinations where overcapacity is likely to continue, and renegotiated rates and conditions, using the very substantial buying power of Airtours to improve existing deals.

Egypt – sun and sand with a big difference

Egypt is one of our most successful new charter destinations for FTi. Year-round, it offers an escape to an exotic and beautiful land with unparalleled historic and archaeological interest. We have been able to link up with our Scandinavian business, which for the past two years has been developing its programme to Egypt, giving us operational synergies and economies of scale. We are now looking at opportunities for building new accommodation to meet the increasing demand from both businesses.

Airtours' position strengthens in the Nordic market

market review

The Scandinavian holiday market shares many features with the UK, especially the range and type of destinations. In distribution, however, there is quite a different profile from the rest of Europe, as most package holidays in the region are traditionally sold direct.

Our strategy has been to develop key brands for direct distribution and others brands for distribution through travel agencies. E-commerce now means we have a third channel and the market is keen to use it. Last year we launched all our brands on the internet, tripling our internet sales to some 7% of total revenues.

We have a 50% share of the market. In a region where 80% of people choose their holiday on the basis of their own experiences, or those of friends and neighbours, customer satisfaction is paramount. Our customer surveys show 1999/00 to be our best year ever in terms of customer satisfaction.

DISTRIBUTION

VING	107 SHOPS
SPIES	19 SHOPS
SAGA/ALWAYS TJAEREBORG	19 SHOPS
DIRECT DISTRIBUTION	3 CALL CENTRES 18 WEB SITES

TOUR OPERATING

CHARTER

VING	SPIES	2.3 MILLION PASSENGERS
SAGA	ALWAYS	
TJAEREBORG		

SPECIALISTS

GLOBETROTTER	GATE 11	0.2 MILLION PASSENGERS
TRIVSEL		

AVIATION

PREMIAIR

18 AIRCRAFT **4,901** SEATS

ACCOMMODATION

SUNWING	13 HOTELS/3,300 ROOMS
TENERIFE SOL	3 HOTELS/1,300 ROOMS

new destinations drive increased brochure sales

In Scandinavia, our business enhanced its market position in 1999/00. Our share of full-price brochure sales improved and is now estimated to represent over 50% of the industry total in Sweden, Norway and Denmark. This was achieved despite the millennium dip experienced by the whole Scandinavian travel industry, the substantial increases in transportation costs and the abolition of EU tax-free sales.

This success owes much to the enhanced products we are now offering – in transport, hotels, cruises and our wide range of destinations. The ability to differentiate our products from the competition is an important factor in this sophisticated market.

We have introduced new Garden Hotels for our Saga, Always and Tjaereborg customers; new Sun Centers for the Spies brand; and for Ving we extended Sunwing Rhodes and opened new Ving Resorts in major destinations. Sunwing developments are now also planned for Gran Canaria and Tenerife. We are also exploring the possibility of expanding in the more specialist destinations of Greece and Turkey.

New European destinations were added to the short-haul programme this year, which has seen strong growth. Egypt was successfully launched as an alternative to the more traditional Canaries as a winter resort for Scandinavians seeking a break in warmer climates. Long-haul charter operations continue to expand at an increasing rate. This year we extended for the first time to Borneo, Bali and new resorts in Thailand.

Airtours' strong position in the charter market is being augmented by growth into the scheduled tour operating sector. Our acquisition in 1999 of Trivsel Globetrotter, the largest Scandinavian player in the expanding scheduled based tailor-made packages market, has proved a successful investment in its first full year of operation within Airtours.

Holland joins the Airtours regional alliance

During the year, the decision was taken to bring our business in Holland under the management of the Scandinavian Leisure Group. Dutch holidaymakers share many preferences for destination and accommodation with their Scandinavian counterparts. After a year of difficult market conditions in Holland, we can now expand the business while reducing costs and exploiting economies of scale.

a new era for Premiair

It was a year of positive change at our in-house airline. In winter 1999, we introduced two brand new long-haul A330-200 aircraft to serve our growing business to Far Eastern destinations. At the end of summer 2000, three A330-300s replaced our DC10's. These modern aircraft give us a competitive advantage in terms of customer comfort and operating economy.

enhanced distribution power in North America

market review

In North America the total national leisure travel market is worth over $500 billion a year. Destinations tend to polarise between the East coast market, which favours the Caribbean, and the West coast, where Hawaii is top of the list. Mexico is popular throughout North America, with the Dominican Republic moving up fast. Travel to Europe, of which 75% of it is leisure, is growing strongly.

The North American holiday market differs significantly from that in Europe. It is fragmented, with many different models – from camping and fishing to cruising and exotic destinations. Seven major national or international airlines provide the majority of the air travel, and the charter element is relatively small. People take frequent short breaks, often making their own travel and accommodation arrangements and have high expectations – for example, more sophisticated, inclusive facilities at the resorts.

Holidays from North America are still mainly distributed through retail outlets. However, direct and internet sales are growing, especially in the USA, and we see opportunities to expand these channels, while introducing additional retail distribution in Canada.

DISTRIBUTION

TSI	16 CALL CENTRES/6 WEB SITES
NALG	8 CALL CENTRES/6 WEB SITES

TOUR OPERATING

VACATION EXPRESS
HOLIDAY NETWORK
ALUMNI HOLIDAYS
SUNQUEST
SUNTRIPS
ALBA TOURS
TRAVEL 800

1.3 MILLION PASSENGERS

RETAIL

AUTO EUROPE
FLYCHEAP
TSI – CRUISE

1.2 MILLION CUSTOMERS

ACCOMMODATION

BLUE BAY	7 HOTELS/3,300 ROOMS

creating a national Canadian presence

To complement our charter tour operations, Sunquest and ALBA Tours, we acquired the Holiday Network this year, which operates scheduled based holidays and is a seat consolidator giving us a national presence in Canada. This puts us in a strong position to begin developing custom-made packages for the Canadian market, in addition to our charter tour operating businesses. We also began to create a vertically integrated business by acquiring distributors Total Travel Marketing and Avion.

new team in place from January 2000

The reorganisation of our core North American business is now complete with a new management team in place. Business restructuring has enabled us to make substantial improvements to the efficiency of the business, resulting in a permanent reduction in overheads. We have reviewed all our holiday programmes, removed loss-making routes and added capacity to programmes where high demand has been experienced and is expected to continue. We are already taking advantage of the opportunities offered by the acquisition of TSI, which is now selling a wide range of our NALG tour operating products through the internet and other distribution channels.

cruise, fly, drive, stay – the TSI distribution portfolio

The acquisition of the TSI group has brought Airtours in North America a group of businesses which operate mostly in travel distribution and are complementary to our existing tour operating activities. All of these businesses have great potential for growth, driven by cutting edge technology and rapidly expanding internet sales – already amounting to 12% of its $1.5 billion gross sales. TSI created mytravelco.com, the internet travel site which is now being developed across the whole Airtours Group.

TSI is the world's largest distributor of cruises – last year, we booked nearly 10% of all cruises taken in the US, for 450,000 individual customers. We act as agents for many different cruise lines and enjoy over 60% repeat business from our customers, who appreciate the choice and service we offer.

TSI IS THE LARGEST DISTRIBUTOR OF CRUISES IN THE UNITED STATES WITH 10% MARKET SHARE

Auto Europe, owned by TSI, is a business-to-business operation, providing travel agencies throughout the US with a booking service for car hire in Europe. Last year, 350,000 customers – 35% of the US market for European leisure car hire – booked through us. This volume gives us tremendous leverage when dealing with the major car rental companies, which we pass on to our customers in very competitive prices. Our reputation for service is second-to-none: unlike most of the US car hire firms, our people are experts on European vehicles.

TSI's Lexington provides over 3,500 hotels with an electronic platform for offering their services to both travel agents and consumers. The service, the largest in the US, is used by hotels which do not have their own national or international electronic systems, and takes 1.8 million reservations a year.

350,000 AMERICANS BOUGHT EUROPEAN CAR HIRE THROUGH AUTO EUROPE THIS YEAR – 35% OF THE MARKET

TSI also owns Flycheap.com, which last year sold over 380,000 air tickets, 80% of them direct to travellers. We are now extending the brand by developing Flycheap vacation packages and Ship'n'Shore, a worldwide tour product featuring Alaska. This is an example of how TSI's unique coverage of all the main holiday elements puts it in a strong position to develop customised holiday packages for high-value markets. The company already has experience in this business through its ownership of AHI, the largest Alumni tour packager in the world. This offers a deluxe international group travel programme for university alumni, museums and other non-profit affinity groups.

AHI, OWNED BY TSI, IS THE LARGEST ALUMNI TOUR PACKAGER IN THE WORLD

global opportunities through e-commerce

market review

The internet, as a distribution channel for leisure travel, is growing fast. Last year, our internet revenues reached £90 million, from 230,000 customers. How far this trend will continue is difficult to predict. Thousands of consumers enthusiastically visit web sites, but research shows that some will always stop short of an on-line transaction. Others may prefer to consult brochures, and then log on to make their booking.

We can be sure that an increasing number of customers will use the internet at some stage of the purchasing process. This means there will be significant opportunities to attract and secure their attention and interest and develop loyalty on-line. E-commerce will be at its most powerful as an integral part of customer relationship management which embraces every available channel, whether through the high street shop, call centre, mobile phone, TV or internet.

At the same time, it offers extremely effective, low cost entry to new markets, as an alternative to setting up traditional retail or direct sales operations.

The mytravelco credit card was launched this year as the first product in the portfolio of financial services to be offered through our new joint venture with the Bank of Scotland. The credit card is being offered with the associated loyalty scheme to our six million customers in the UK.

holiday auctions on the web

Late Escapes' bargain and last minute offers have been expanded to include the world's largest leisure travel auction site, www.lateescapes.com, where customers can bid for selected holidays. It's a new, fun way to get away – and unsuccessful bidders will receive a further selection of holidays, similar to those they bid for, as alternative options.

new approaches to customer relationship management

Customer relationship management (CRM) – put simply, listening and talking to our customers at a personal level – is central to our ability to provide them with an enhanced service and an improved product. We have formed a partnership with BroadVision, one of the world's leading suppliers of CRM solutions, to track customers who use mytravelco, in any channel they use. The system will study in detail not just the holidays individuals book, but the products they research and the editorial material they prefer. This will enable us to build a detailed profile which could never be obtained through data from a once or twice-a-year holiday purchase. In turn, we can provide our customers with offers and opportunities which they are most likely to find attractive.

BROADVISION

Sun microsystems

BT

engage like never before™

ORACLE

Open....

BANK OF SCOTLAND

BUSINESS PARTNERS

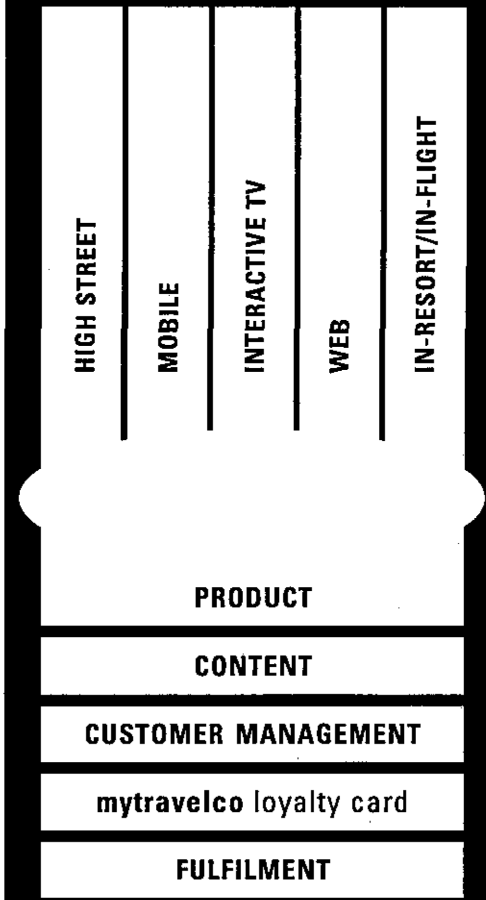
mytravelco – a global retail brand

Launched in 2000 as a worldwide electronic retail service for the Airtours Group, mytravelco, which was acquired with TSI, is being developed as the world's leading e-commerce holiday service. It will offer customers access to a wide range of holidays, as well as other travel-related products and services. Package holidays, cruises, car hire, modular travel and financial services will all be available.

The service will complement and support our tour operating brands, in each of our major markets. Different versions will operate in North America, Scandinavia, the UK and Germany, and will be developed and managed locally. All will utilise the same technologies, and we have signed up with a range of technology partners, including BroadVision, Oracle and Sun Micro Systems.

Access to mytravelco will be through a full range of established and emerging interactive channels, including the internet, new generation mobile phones and digital TV. Customers will also be able to learn more about their resorts, select excursions and choose duty and tax-free products through in-flight and on-board entertainment systems and hotel room systems. The service will also be available through our existing retail shops, hypermarkets, and new mytravelco shops.

Mytravelco will be a community for travellers, supplying customers with all their travel needs. We have already formed partnerships with several publishers and broadcasters to ensure the entertainment content will be informative and participative. We have built an in-house studio facility – staffed by media, broadcasting and e-commerce specialists; which will develop mytravelco and other interactive services designed to give us long-term competitive advantage.



operating and financial review

FINANCIAL HIGHLIGHTS

	2000	1999
Group turnover (£m)	4,434.8	3,771.3
Profit before tax (£m)	211.4	125.9
Earnings per share, basic (p)	35.98	19.74
Earnings per share, diluted (p)	34.10	19.53
Dividend per share (p)	9.00	8.25
Net assets (£m)	543.6	208.1

group result

Total turnover, including our share of the turnover of our joint ventures, increased by 18% from £3,771.3m to £4,434.8m. The increase of £663.5m comprises £308.6m from existing and discontinued operations and £354.9m from acquisitions in 1999/2000.

The profit before tax for this year amounted to £211.4m (1999: £125.9m). This result comprises profit from continuing operations before tax, exceptional items and goodwill amortisation of £68.2m (1999: £106.6m), profit before tax, exceptional items and goodwill amortisation from discontinued operations of £8.6m (1999: £24.9m), net exceptional costs of £87.9m (1999: £4.5m), an exceptional profit of £235.8m on the disposal of our 50% interest in Costa Crociere, and goodwill amortisation of £13.3m (1999: £1.1m).

Continuing Operations Profit before tax, exceptional items and goodwill amortisation from continuing operations amounted to £68.2m (1999: £106.6m). The figures are stated after charging £10.6m of costs associated with the launch of our e-commerce initiatives, together with £13.6m associated with an accounting policy adjustment as a result of the introduction of FRS 15 and UITF 24 (1999: £25.0m). In the UK, profits before tax, exceptional items and goodwill amortisation from continuing operations amounted to £101.1m (1999: £88.2m) with £91.1m (1999: £88.2m) generated by existing businesses and £10.0m from acquisitions. Our Other European continuing operations, which now comprise our Scandinavian, Dutch and German operations, generated £11.0m (1999: £41.7m) before exceptional items and goodwill amortisation. This result includes a loss of £9.3m from FTi. In North America, we incurred a loss before exceptional items and goodwill amortisation of £7.8m (1999: £16.1m). This result reflected a loss in the North American Leisure Group of £16.1m (1999: £16.1m) partially offset by an excellent performance in the newly acquired TSI which contributed £8.1m, and profits arising in other North American acquisitions of £0.2m. FTi's loss before exceptional items and goodwill amortisation included in Joint Ventures continuing operations amounted to £38.3m (1999: £8.9m), other continuing Joint Ventures reported a profit of £2.2m (1999: £1.7m).

Discontinued Operations Profit before tax, exceptional items and goodwill amortisation from discontinued operations amounted to £8.6m (1999: £24.9m). This result comprises our share of the profits from Costa of £25.2m (1999: £31.6m) and losses in Belgium and France of £16.6m (1999: £6.7m).

Net Exceptional Costs Net exceptional costs of £87.9m have been charged to the profit and loss account in 2000 (1999: £4.5m). The exceptional items include: £37.3m associated with the fundamental reorganisation of our businesses in the UK and £9.6m for restructuring costs in the UK and North America; £20.2m for the closure of our Belgian and French operations; £12.1m for the termination of our vacation ownership businesses; £5.6m in relation to the termination of a cruise contract inherited on acquisition of Direct Holidays; £11.3m for the write-off of deposits and onerous contracts in FTi; and other exceptional costs of £5.7m. These have been partially offset by £13.9m of profits on the sale of fixed assets.

Costa Sale The profit on the disposal of Costa amounted to £235.8m based on net proceeds of £347.8m and a total cost of investment of £112.0m comprising the initial investment of £24.7m together with the increase in value arising from trading profits.

Goodwill During the year we incurred £13.3m of goodwill amortisation (1999: £1.1m). The increase largely related to TSI which amounted to £6.7m in the six months since acquisition.

taxation

The Group's taxation charge for the year of £25.0m represents 11.8% of profit before tax. The rate excluding exceptional items and goodwill is 23.7% as in the previous year. This rate is expected to prevail for the foreseeable future.

earnings and dividends

Basic earnings per share was 35.98p in 2000, compared with 19.74p in 1999, an increase of 82%. The diluted earnings per share on the same basis was 34.10p compared with 19.53p in 1999, an increase of 75%. Basic earnings per share before exceptional items and goodwill amounted to 9.12p compared with 20.90p in 1999. The equivalent diluted earnings per share was 10.69p in 2000 compared with 20.68p in 1999.

The Board is recommending a final dividend of 7.20p per ordinary share, which together with the interim dividend of 1.80p per share, gives a total dividend of 9.00p for the year an increase of 9% on last year. At this level the dividend is covered 3.90 times.

business developments

This year we invested £408.2m in acquiring new businesses. In March 2000, we acquired TSI, the largest cruise distributor in the world, for £242.7m. Also in North America we made three other acquisitions: The Holiday Network, a flight consolidator and scheduled package operator (April 2000); and Total Travel Marketing (April 2000) and Avion Travel (July 2000), both distributors in Canada.

In the UK, we acquired for £23.0m, Sunway Travel (Coaching) Limited for £23.0m, a coach based tour operator trading as Leger Holidays; Manos (UK) Limited for £7.3m, a charter based tour operator specialising in holidays to Greece and Turkey; and Jetset Europe plc, a scheduled based long haul operator. In October 1999 we acquired the remaining 50% of the Lake Eve joint venture.

In Germany, we purchased the remaining share capital of Frosch Touristik Gmbh (FTi) for £23.9, with £18.5m satisfied by the issue of new ordinary shares in Airtours in September 2000 and £5.4m in cash.

As part of our strategy of investment in prime resort properties, we acquired for £49.0m the Hoteles Don Pedro S.A., a hotel management company which owns one hotel and has been granted leases to operate the 28 hotels of the Globales Group of companies. We increased our shareholding in the Blue Bay hotel management company in Mexico from 65% to 90% and we announced the acquisition for £28.8m of 50% of Hotetur Club S.L., which operates a portfolio of 19 hotels located in Majorca, Lanzarote, Cuba and the Dominican Republic.

cash balances and cash flow

Cash and deposits at the year end were £793.3m compared with £554.2m last year end, an increase of £239.1m. The major cash inflows during the period include: £210.0m from the issue of undated minority interest preference shares; £250.0m from the draw down of bank facilities; £350.0m of proceeds from the disposal of Costa on 29 September 2000; and operating cash flow of £133.9m (1999: £99.2m) an increase of £34.7m. Cash outflows in the period mainly comprised £362.7m on the acquisition of new businesses; £137.8m on net capital expenditure; and £40.1m for equity dividends.

capital investment and financial resources

During the year the Group invested £224.1m in capital expenditure compared with £164.4m in 1999. The main components of the expenditure were £79.6m for land and buildings, principally relating to the purchase of the Bellevue hotel complex and our new centralised back offices in Rochdale; £38.6m on computer systems and equipment, and £56.0m on aircraft and aircraft spares. Other additions of £50.1m included hotel and office fixtures and fittings, Eurosites equipment, dry dock costs and short leasehold costs on retail outlets and offices.

The net assets of the Group at 30 September 2000 amounted to £543.6m compared with £208.1m in 1999. The main reasons for the increase year on year are the net cash increase of £239.1m following the disposal of Costa; the increase in tangible fixed assets of £95.7m; and the increase in capitalised goodwill, principally relating to the acquisition of TSI. These have been partially offset by an increase in creditors both within one year and greater than one year reflecting the growth of our operations.

changes in financial reporting requirements

Financial Reporting Standard 15 on fixed assets became effective for Airtours' financial year ended 30 September 2000, and consequently its adoption is reflected within these accounts. The standard sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets to ensure consistency.

On 22 June 2000 the Urgent Issues Task Board issued UITF Abstract 24 on start up costs. The Abstract requires that where start up costs are incurred that cannot be included in the cost of a fixed asset under FRS 15, these should be expensed as incurred. Where the start up costs were incurred in previous accounting periods, the UITF requires a prior period adjustment to be made. The impact of FRS 15 and UITF 24 is to reduce the current year profit by £13.6m and the opening reserves by £40.0m. The costs include aircraft start-up expenses and costs associated with the expansion of Direct Holidays.

risk management

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

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

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

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

The Group's net assets in currencies other than sterling are selectively hedged to reduce the effect of currency movements on the Group's sterling balance sheet. The Group's policy is to minimise this effect primarily through matching the currency assets with centrally held currency liabilities by using currency foreign exchange contracts and debt. The objective is to maintain a balanced portfolio of net assets by currency. Details of the currency analysis of net financial assets can be seen in note 22. In addition, the Group selectively hedges its expected future trading cash flows up to 12 months ahead, primarily using forward contracts.

II **Interest Risk** The Group's exposure to interest rate fluctuations on its borrowings, deposits, and cruise ship and aircraft related financing is managed by using interest rate swaps, interest rate options (caps and collars) and forward rate agreements.

The proportion of gross debt that is fixed or hedged is higher in the near term than in the longer term, with the aim of reducing the volatility of short-term interest costs whilst maintaining the opportunity to benefit from movements in longer-term rates. At the year end, after taking into account interest rate swaps and forward rate agreements, the proportion of the Group's gross borrowings at fixed and hedged rates was 71.0% at a blended rate of 6.5%. The gross cash position was fully floating. Details of the interest rate analysis can be seen in note 22.

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 at the time of commitment with Group Treasury. Hedging is put in place using fuel commodity swaps.

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

During the year, the Group issued £210m of undated preference shares in November 1999 and arranged a £250m revolving credit facility in March 2000 of which £250m was drawn at 30 September 2000. In July 2000, a £35m unsecured loan denominated in Greek drachma was repaid. As detailed in note 22 only 6.9% of the Group's total borrowings at the year end will mature in the next twelve months and 93.1% will mature in more than one year but less than five.

segmental analysis

UK – Existing Operations Turnover from UK existing operations in the year increased by £344.0m, or 19%, from £1,838.3m to £2,182.3m. Profit before tax, exceptional items and goodwill amortisation amounted to £91.1m (1999: £88.2m). The result reflects increased volumes, particularly in Direct Holidays and Panorama Holidays, offset by increased costs of discounting, especially over the millennium period. Our continued investment in direct distribution, which is a lower cost method of distribution, has inevitably led to duplicated infrastructure costs in the short-term.

The result includes the losses from our European Vacation Ownership business which contributed £21.8m to Group turnover (1999: £34.6m) and reported a loss before tax, exceptional items and goodwill of £0.1m (1999: profit of £3.9m).

The result was also impacted by £8.2m of costs written off under UITF 24, mainly relating to the expansion of Direct Holidays, and £6.4m of costs relating to our e-commerce initiatives.

Net exceptional costs of £44.7m were charged in the period, of which £37.3m related to the fundamental reorganisation of the UK businesses, comprising £25.3m relating to the write-off of certain legacy systems which are to be replaced by more efficient systems already used by other Group businesses and £10.0m relating to the relocation of the Airtours Holidays, Going Places and Travelworld back office operations to Rochdale; £5.6m related to the termination of a cruise contract within Direct Holidays; £5.6m other reorganisation costs; and a £3.7m provision for the termination of our European Vacation Ownership operations. Profit on the sale of fixed assets in the period amounted to £7.5m, relating largely to the sale of aircraft engines. Goodwill amortisation of £1.3m has been charged in the period.

UK – Acquisitions Turnover from our UK acquisitions (Manos, Leger, Jetset, Globales and Lake Eve) was £141.5m. Profit before tax, exceptional items and goodwill amortisation amounted to £10.0m. This result is in line with expectations at the time of acquisition. Exceptional costs of £8.4m were charged in the period relating to provisions for the termination of our Lake Eve Vacation Ownership operations. Goodwill amortisation of £2.6m was charged in the period.

Other Europe – Existing Operations Our Other European existing operations consist mainly of our Scandinavian Leisure Group (SLG) together with our operations in Holland which were transferred to the management of SLG during the year. Total turnover in the year was £926.3m (1999: £1,007.1m), a decrease of 8%. Profit before tax, exceptional items and goodwill amortisation was £20.3m (1999: £41.7m). The strengthening of sterling against the Scandinavian currencies reduced reported turnover and profits compared with the prior year. In Holland, poor yields and increased winter losses, particularly over the millennium period, had an adverse effect on the results. Goodwill of £0.9m has been charged in the period.

The result also reflects £6.3m of costs written off under UITF 24, relating mainly to the airline, and £3.3m of e-commerce costs. Profit on the sale of fixed assets of £4.0m in the year relates largely to the sale of aircraft engines. This has been partially offset by exceptional reorganisation costs of £2.7m.

Other Europe – Acquisitions This segment reflects the results of FTi following our acquisition of the remaining share capital on 4 September 2000. Airtours' share of the results of FTi for the period prior to 4 September 2000 have been included within our Joint Ventures' segment. In the post-acquisition period turnover amounted to £92.8m and the loss before tax, exceptional items and goodwill was £9.3m.

While FTi achieved a rapid growth in the volume of charter passengers this year, it was not able to generate positive margins. This was due to increasingly difficult trading conditions arising from overcapacity in the German market together with operational inefficiencies particularly in relation to poor utilisation of aircraft seats and guaranteed accommodation.

Net exceptional costs of £3.0m were charged in the period relating to reorganisation costs following our purchase of the remaining share capital in the year. Goodwill of £1.0m has been charged in the period.

Other Europe – Discontinued Our Belgian and French businesses, acquired with Bridge and Cresta as part of Sun International, which have now been closed due to the lack of sustainable passenger volumes and weak market positions, reported increased losses during the year. Turnover in the year amounted to £143.3m (1999: £140.3m) and the loss before exceptional items and goodwill amortisation, amounted to £16.6m (1999: £6.7m). Exceptional closure costs of £20.2m have been charged in the year, this has been partially offset by £0.7m profit on the sale of fixed assets.

North America – Existing Operations Turnover from our North American existing operations increased 6% to £342.6m (1999: £323.6m). The loss before tax, exceptional items and goodwill amortisation amounted to £16.1m (1999: £16.1m). The losses were largely as a result of poor trading over the millennium period and the costs associated with the programme rationalisation undertaken in the year. E-commerce costs of £0.1m were incurred in the year. Goodwill of £0.3m has been charged in the period.

North America – Acquisitions TSI had a very successful year with profits close to their record levels of 1998, exceeding our expectations at the time of acquisition, contributing £79.0m to turnover and £8.1m to profit before tax and goodwill amortisation. Auto Europe achieved excellent growth, particularly in its e-commerce business, and cruise distribution operations achieved higher volumes year-on-year as well as higher average commission rates.

TSI is also now successfully distributing NALG products through its extensive network and it offers great growth potential in its own right, within and outside North America. E-commerce costs of £0.6m were incurred in the year. Our other North American acquisitions contributed £41.2m to turnover, and £0.2m to profit before tax. Goodwill of £7.2m has been charged in the period.

Joint Ventures Our share of the Costa result before tax and exceptional items to the date of disposal of 29 September 2000 was £25.2m (1999: £31.6m). We incurred a loss before tax and exceptional items from our interest in FTi amounting to £38.3m (1999: £8.9m). This includes e-commerce costs of £0.2m. Our share of the profit before tax from Tenerife Sol amounted to £2.1m (1999: £2.9m). Our share of the Hotetur profit before tax was £0.1m.

D. Jardine

DAVID JARDINE FINANCE DIRECTOR

board of directors

DAVID CROSSLAND*▲ Aged 53.

Chairman of the Group which he founded in 1972. Over 37 years experience in the travel industry.

TIM BYRNE Aged 41.

Chief Executive. Joined the Group in 1993 and was appointed to the Board in 1997 as Finance Director. Appointed Managing Director in 1999 and Chief Executive in 2000. Previously worked for the Granada Group where he held Board level positions in hotel, theme park and television businesses.

DAVID JARDINE Aged 38.

Finance Director. Joined the Group in March 2000. Previously a partner in Arthur Andersen where he worked for 15 years.

SIR MICHAEL BISHOP CBE•*▲

Aged 58. Deputy Chairman. Joined the Board in 1987 as a Non-Executive Director. Chairman of British Midland plc, British Regional Airlines Group plc, Non-Executive Director of Kidde plc and Chairman of the D'Oyly Carte Opera Trust. He was previously Chairman of Channel 4 Television from 1993 to 1997.

LARS THUESEN Aged 44.

Executive Chairman of the European Leisure Group and the Accommodation Division. Joined the Group as Deputy Chief Executive Officer of the Scandinavian Leisure Group when it was acquired in 1994. Joined the board in 1998.

PETER McHUGH Aged 53

Chief Executive Officer of the Group's North American operations. Joined the Group in April 2000 as President and Chief Executive Officer of Travel Services International. Joined the board in November 2000. Previously was President and Chief Operating Officer of the Holland America Line – Westours Inc. More than 20 years experience in the airline industry with senior management positions in Pan Am and TWA.

CHRISTER SANDAHL Aged 56.

Executive Chairman of the Scandinavian Leisure Group. Joined the Group in 1994 when Scandinavian Leisure Group was acquired. Joined the Board in 1996. Over 30 years experience in the tour operating and airline industries. Vice President of the International Federation of Tour Operators and a Non-Executive Director of Proffice AB and the Cybercom Consulting Group.

MIKE LEE Aged 53.

Executive Chairman of the Aviation Division. Joined the Group in 1990. Appointed to the Board in 1993. Over 30 years experience in the airline industry. Prior to joining the company he has held a number of senior positions in civil aviation, including Managing Director of Novair.

RICHARD CARRICK Aged 46.

Chief Executive Officer of the UK Leisure Group. Joined the Group in 1993 as Marketing Director of Airtours Holidays and was promoted to Managing Director of Airtours Holidays in 1999. Joined the board in November 2000. Over 20 years experience in the travel industry. Previously held senior directorships in International Leisure Group, Saga Holidays and Forte Hotels and Restaurants.

MICKY ARISON Aged 51.

Non-Executive Director. Joined the board in 1996 when Carnival Corporation acquired its shareholding in the company. Chairman and Chief Executive Officer of Carnival Corporation. Chairman of the International Council of Cruise Lines and The Florida Caribbean Cruise Lines.

HARRY COE Aged 56.

Non-Executive Director. Joined the Group as Finance Director in 1988 and became Deputy Chief Executive in September 1996 and Group Managing Director in December 1997 until his retirement from executive office in December 1999. Non-Executive Chairman of Travelsphere Holidays Limited and Jaycare Holidays Limited and a Non-Executive Director of The Britannia Building Society.

SIR TOM FARMER• Aged 60.

Non-Executive Director. Joined the Board in 1994. Chairman of Kwik-Fit Holidays plc. Appointed to the Board of the Ford Customer Service Division, USA in 1997. Chairman of the Scotland Against Drugs campaign, trustee of the Duke of Edinburgh Award and patron of numerous charities.

HOWARD FRANK• Aged 59.

Non-Executive Director. Joined the Board in 1996 when Carnival Corporation acquired its shareholding in the company. Vice-chairman and Chief Operating Officer of Carnival Corporation.

ERIC SANDERSON•*▲ Aged 49.

Non-Executive Director. Joined the Board in 1987. Managing Director of Kwik-Fit Insurance Services Limited. Previously Chief Executive of Bank of Scotland Treasury Services and General Manager of Bank of Scotland. He has held a number of Non-Executive Directorships and is also Chairman of the Quality Advisory Panel of Docklands Light Railway.

• MEMBER OF THE AUDIT COMMITTEE

* MEMBER OF THE REMUNERATION COMMITTEE

▲ MEMBER OF THE NOMINATIONS COMMITTEE

directors' report

The Directors present their report together with the accounts and auditors' report for the year ended 30 September 2000.

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

Business review During the year the Group announced its e-commerce strategy which included the launch of mytravelco, a global travel service. At the end of the year the Group took the opportunity to realise its investment in Costa Crociere SpA, a non-core business, at a time when capacity in the cruise industry was set to increase significantly.

Both of the above developments will leave Airtours considerably better placed to invest in business areas which provide opportunities for strong growth and which further support and enhance the Group's core activities.

In March 2000 the Group completed the acquisition of Travel Services International, Inc. (TSI). TSI is a major distributor of leisure travel products in the US market with leading positions in the distribution of cruise holidays, the arrangement and distribution of auto rental services, distribution of scheduled airline tickets, the organisation and operation of alumni holidays and the provision of hotel bookings services.

On 30 March 2000 the Group acquired the entire share capital of Hoteles Don Pedro, S.A., a hotel management company which owned one hotel and which had been granted leases to operate the 28 hotels of the Globales Group of Companies, one of Spain's leading hotel companies.

On 4 September 2000 the Group completed the acquisition of all the remaining issued share capital of Frosch Touristik GmbH (FTi) which has increased its passenger base, invested in distribution and established its own in-house airline FLY FTi, all since Airtours first acquired a minority stake in May 1998.

A full review of the Group's activities and its financial position at 30 September 2000 and developments during the year are reported in the Chairman's Statement on page 3 and in the Operating and Financial Review on pages 16 to 19.

Results and dividends Profits for the year after tax and minority interests amount to £171.3m (1999: £93.8m as restated). The Directors recommend a final dividend of 7.20p (1999: 6.60p) per ordinary share amounting to £35.5m to be paid on 16 February 2001, which, with the interim dividend of 1.80p (1999: 1.65p) per ordinary share, amounting to £8.6m, paid on 3 July 2000, makes a total of 9.00p for the year (1999: 8.25p). The retained profit of £127.4m (1999: £54.4m as restated) has been added to reserves.

Directors The Directors in office at the end of the year and their interests in the shares of the Company are listed on page 28.

Mr H H Collinson retired from the Board on 20 January 2000 and Messrs R O Davies and P F Rothwell resigned from the Board on 17 April 2000 and 5 October 2000 respectively.

Mr T R Byrne, Sir Tom Farmer and Mr M C Lee retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr Byrne and Mr Lee each have a service contract terminable by the Company at any time on 24 months' notice. Sir Tom Farmer has a letter of appointment terminable by the Company at any time on six months' notice.

Each of Mr D Jardine, who was appointed a Director on 13 March 2000, and Mr R J Carrick and Mr P McHugh, who were appointed Directors on 21 November 2000, retire at the forthcoming Annual General Meeting in accordance with the Company's Articles of Association and, being eligible, offer themselves for re-election.

During the year, save as referred to in the Remuneration Report and note 33 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 2000 was 24 days (1999: 30 days). The number of days credit taken by Group companies for trade purchases at 30 September 2000 ranged from 3 days to 73 days (1999: 8 days to 42 days). The average number of days taken was 36 days (1999: 29 days).

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

Charitable and political donations The Group made UK charitable donations of £247,000 during the year. No political donations were made.

Substantial shareholdings At 20 November 2000, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

	Number of shares held	% of issued share capital
Carnival Investments (UK) Limited	123,344,501	25.1
Schroders	63,792,098	13.0
David Crossland (Chairman)	48,539,874	9.9
Prudential plc	19,642,100	4.0
Fidelity Investments	14,752,625	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.

directors' report continued

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 and February 2000 and were taken up by 38% and 35% 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 18 January 2001 is incorporated in a letter which is being sent to shareholders by the Chairman with these accounts and which explains the special business which is to be transacted at the meeting.

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

By order of the Board
G J McMahon
Secretary
21 November 2000

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

In preparing the accounts, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, 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 Group remains committed to high standards of corporate governance. Considerable progress has been made towards implementing in full the Combined Code and in developing further the Group's system of internal control and reporting.

The Board regards as paramount the interests of the shareholders and is responsible for determining a strategy for the Group that will maximise shareholder value. The Board acknowledges also its responsibility to the Group's customers and employees.

The Board comprises eight Executive and six Non-Executive Directors, whose biographies appear on page 21. The Group continues to benefit from a Board made up of individuals with a wide range of industry and business experience.

Sir Michael Bishop has been identified by the Board as the senior Non-Executive Director.

The Board has established a Nominations Committee comprised of two Non-Executive Directors, Sir Michael Bishop and Mr E F Sanderson, and chaired by the Chairman of Airtours plc, Mr D Crossland. That Committee considers potential appointees to the Board and makes recommendations to the Board in relation to such appointments.

The Board strongly supports a programme of ongoing communication with the Company's shareholders. This programme, formalised within a framework of investor relations, includes formal presentations of full year and interim results; trading statements and regular meetings of senior management with the Company's institutional investors. The Directors have also sought to develop further the information available through the Company's web site (www.airtours.com). The Annual and Interim Reports facilitate effective communication and the Annual General Meeting provides an opportunity for the Directors to deliver presentations on the business and for shareholders, both institutional and private, to question the Directors directly.

Internal control The Directors have overall responsibility for ensuring the existence and operation of an effective system of internal control. In assuming this responsibility the Directors are aware that any system of internal control can, by its nature, provide only reasonable and not absolute assurance against material misstatement or loss.

In accordance with the transitional approach permitted by the UK Listing Authority, the Board has, in respect of the year ended 30 September 2000, reviewed the effectiveness of the Group's system of internal financial controls. It is anticipated that the Group will achieve full compliance with the recommendations of the Turnbull Committee for the year ending 30 September 2001.

The Group's system of internal control has been developed throughout the year as the Group seeks to implement fully the internal control requirements of the Combined Code. Central to this development are the Group's established risk management procedures which help ensure that all major risks to the realisation of the Group's business strategy are documented and communicated and that effective monitoring and mitigating actions are planned and executed. Progress in mitigating the major risks, along with details of how the risk management procedures have been enhanced, are reported regularly to the Audit Committee.

Key additional elements of the Group's system of internal control, the process by which the effectiveness of that system is reviewed, and the planned enhancements to it are given below:

- A comprehensive budgetary process in which each division submits a detailed annual budget for challenge and approval by the Board. The Board monitors closely actual performance against the agreed budget.
- A corporate Policy and Procedures Manual that is subject to continual development to reflect changes in best practice. The manual incorporates detailed accounting and control requirements compliance with which is confirmed by each Chief Executive Officer and Chief Financial Officer across the Group. These confirmations are subject to audit by members of the Group's Internal Audit function. The manual will be enhanced further in early 2001 to incorporate revised key controls, including operational and compliance controls.
- A Group Internal Audit function that has been expanded to incorporate the necessary skills to enable the assessment and monitoring of controls in non-financial areas such as environmental and social policy, health and safety and regulatory compliance.
- All major findings arising from the Internal Audit reports are presented to and discussed with members of the Board and with the Audit Committee.

Compliance with the Combined Code The Company has adopted a formal Corporate Governance Compliance Statement which sets out the application of the Combined Code to the particular circumstances of the Group. The Directors believe that the Group has complied with the requirements of the Combined Code except as follows:

- Sir Michael Bishop, Sir Tom Farmer and Mr E F Sanderson are the only Non-Executive Directors considered to be independent of management and free from any business or other relationship which could interfere materially with the exercise of independent judgement;
- 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;
- All of the Executive Directors 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.

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 two Non-Executive Directors, the Deputy Chairman Sir Michael Bishop and Mr E F Sanderson.

The Committee is responsible for the determination of the remuneration policy as applied to the Executive Directors and senior executives of the Company and the Group. Mr Crossland does not determine his own remuneration package.

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

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 of Directors is calculated on the basis of a maximum of 62.5% of base salary effective at 1 April in the financial year. No bonuses have been earned in respect of the financial year ended 30 September 2000 as the performance targets set at the beginning of the financial year have not been achieved.

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

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

The entitlement to the bonus, which could have been taken in the Company's shares, was subject to the Company achieving earnings per share (eps) growth at least equal to the growth in the retail price index (RPI) plus 3% per annum over the four-year period specified at the date of the award. In addition, the level of payment was then to be determined by the Company's eps growth in comparison to the eps growth over the same period of those companies constituting the FTSE mid-250 Index at the beginning of the period. No payment was to be made if the Company did not achieve the minimum ranking of 150th within the FTSE mid-250 Index.

The period over which eps growth was to be measured in respect of all outstanding notional awards ended on 30 September 2000 and in view of the Company's eps growth not meeting the required level, no payments fall to be made under the terms of the long-term incentive plan.

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

At 30 September 1999 the following notional awards of ordinary shares were in existence:

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

There were no new notional awards of ordinary shares, nor payments, made to Directors under the long-term incentive plan in the year ended 30 September 2000.

III PENSION RIGHTS

Messrs T R Byrne, D Jardine and L Thuesen are each members of the Company's defined contribution scheme into which the Company, each year, contributes 25% of their annual salary. The Company has agreed to make payments into the Airtours Pension Scheme on behalf of Mr A H Coe of £37,675 per month during the period to 31 December 2001. As part of the revised arrangements with Mr Coe, the Board considered it appropriate to make these payments.

Mr M C Lee has his own non-contributory personal pension scheme into which the Group contributes each year 25% of his 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 2000, a further £27,000 pursuant to his entitlement under the terms of his service contract with Scandinavian Leisure Group AB.

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 has been further amended with effect from 13 July 1990, 28 February 1992, 15 April 1992, 1 November 1994, 25 July 1997, and 25 February 1998. The scheme was set up for a period of ten years and in accordance with the rules of the scheme the last date on which options could be granted was 29 June 1996.

Options granted under the scheme are normally exercisable, in the case of Class 1 options, between three years and ten years from the date of grant and, in the case of Class 2 options, in the period between five years and ten years from the date of grant.

There are no performance criteria attached to the exercise of Class 1 options. The exercise of Class 2 options is dependent upon the percentage increase in eps of the Company, calculated over any six consecutive accounting periods (the earliest being not earlier than the most recent accounting period ending on a date prior to the grant date of such Class 2 options), being equal to or greater than the percentage increase in eps for the same period of the constituent company which, in terms of eps growth for the same period, ranks as the lowest of the top quartile of those companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index.

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

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

The Airtours 1999 SAYE scheme was adopted by shareholders on 11 February 1999 and is open to all UK employees who have been with the Group for a qualifying period fixed by the Board. Eligible UK employees with at least six months' service were invited in March 1999 and again in February 2000 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) 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.

An award may normally only be exercised by the holder giving written notice of exercise to the Company in the period commencing on 1 September 2000 and ending on 27 September 2000. Such notice ordinarily would have taken effect on 29 September 2000. However, since that exercise period coincided with a close period or a prohibited period for the purposes of the Model Code, the exercise period was extended to commence on 21 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 Board, are entitled to participate in the scheme. The Remuneration Committee operates the scheme as regards options granted or to be granted to Executive Directors of Airtours, in consultation with the Chairman or Chief Executive as appropriate.

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

Options 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.

remuneration report continued

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 are terminable by the Company giving not less than 24 months' notice.

The Board believe 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, other than Mr A H Coe, do not receive bonus payments or share options and they are not members of the Company's pension scheme. Save for Sir Michael Bishop, Mr E F Sanderson and Sir Tom Farmer who each have a letter of appointment which provide that their appointment is terminable by the Company giving not less than six months' notice, and Mr A H Coe whose employment will terminate on 31 December 2001 as part of his revised employment arrangements with the Company, none of the other Non-Executive Directors has a service contract or letter of appointment.

Remuneration in respect of Directors was as follows:

	Annual base salary September 2000 £000	Salary and fees £000	Benefits £000	Pension contributions £000	Total 2000 £000	Total 1999 £000
Executive						
D Crossland, Chairman	570	545	66	–	611	829
T R Byrne	375	337	19	84	440	466
H H Collinson * (retired 20 January 2000)	–	274	22	65	361	631
D Jardine (appointed 13 March 2000)	320	183	8	46	237	–
M C Lee	320	313	17	61	391	490
P F Rothwell (appointed 17 November 1999; resigned 5 October 2000)	320	275	14	69	358	–
B C Sandahl	281	256	7	34	297	500
L Thuesen	320	310	25	99	434	868
		2,493	178	458	3,129	3,784
Non-Executive						
M M Arison	–	–	–	–	–	–
Sir Michael Bishop	55	52	–	–	52	50
A H Coe **	249	105	23	29	157	735
R O Davies *** (resigned 17 April 2000)	–	19	–	–	19	173
Sir Tom Farmer	18	17	–	–	17	17
H S Frank	–	–	–	–	–	–
E F Sanderson	18	17	2	–	19	17
		210	25	29	264	992
Total emoluments		2,703	203	487	3,393	4,776

* Not included in the above table are amounts totalling £342,200, made up of £199,200 paid to Mr H H Collinson and £143,000 paid into Mr Collinson's own non-contributory pension scheme, arising out of Mr Collinson's termination agreement. A further such amount of £371,800 by way of compensation for loss of office has been accrued and remains to be paid under the terms of Mr Collinson's termination agreement.

** Mr A H Coe retired as an Executive Director on 31 December 1999 since when he has served as a Non-Executive Director. Not included in the table above are amounts payable under the arrangements under which Mr Coe retired from his executive office totalling £644,819, made up of £305,744 paid to Mr Coe and £339,075 paid into the Airtours pension scheme for the benefit of Mr Coe. Further such amounts which have been accrued totalling £876,240 remain to be paid under those arrangements.

*** Mr R O Davies's remuneration for the year ended 30 September 1999 included £140,000 in respect of consultancy services provided in relation to the Company's bid for First Choice Holidays PLC.

remuneration report continued

The interests, beneficial unless otherwise indicated, of the Directors in the shares of the Company, as shown by the register maintained under section 325 of the Companies Act 1985, at 1 October 1999 (or the date of their appointment to the Board if later) and 30 September 2000 were as follows:

	Ordinary shares 2000	Ordinary shares 1999	<--- 1986 Share Option Scheme ---> Class 1 options 2000	Class 1 options 1999	Class 2 options 2000	Class 2 options 1999
D Crossland	48,539,874	48,539,874	–	–	–	–
M M Arison *	123,344,501	123,344,501	–	–	–	–
Sir Michael Bishop	201,600	201,600	–	–	–	–
T R Byrne	–	–	–	–	360,000	360,000
A H Coe **	147,271	147,933	–	150,000	–	271,620
Sir Tom Farmer	75,000	75,000	–	–	–	–
H S Frank	–	–	–	–	–	–
D Jardine	–	–	–	–	–	–
M C Lee ***	122,664	147,664	300,000	300,000	421,620	421,620
P F Rothwell	60,000	–	–	–	600,000	600,000
B C Sandahl	–	–	–	–	–	–
E F Sanderson	18,720	18,720	–	–	–	–
L Thuesen	70,000	70,000	–	–	–	–

	SAYE scheme options 2000	SAYE scheme options 1999	Executive 1999 scheme 2000	Executive 1999 scheme 1999	Share Bonus Plan 1998 2000	Share Bonus Plan 1998 1999
D Crossland	–	–	–	–	–	–
M M Arison *	–	–	–	–	–	–
Sir Michael Bishop	–	–	–	–	–	–
T R Byrne	8,859	8,859	–	–	–	–
A H Coe **	–	–	–	–	–	–
Sir Tom Farmer	–	–	–	–	–	–
H S Frank	–	–	–	–	–	–
D Jardine	–	–	275,384	–	–	–
M C Lee ***	8,307	–	–	–	–	–
P F Rothwell	8,859	8,859	375,336	124,552	54,906	151,906
B C Sandahl	–	–	–	–	–	–
E F Sanderson	–	–	–	–	–	–
L Thuesen	8,307	–	427,404	198,976	–	–

* Mr M M Arison's interests arise from the fact that, pursuant to section 324 of the Companies Act 1985, by reason of his shareholding in Carnival Corporation, he is interested in the 123,344,501 ordinary shares (1 October 1999: 123,344,501) registered in the name of Carnival Investments (UK) Limited, a wholly-owned subsidiary of Carnival Corporation.

** Of the 147,271 ordinary shares (1 October 1999: 147,933), 70,782 (1 October 1999: 70,782) represents a non-beneficial interest.

*** Of the 122,664 ordinary shares (1 October 1999: 147,664), 1,250 (1 October 1999: 1,250) represents a non-beneficial interest.

In the period between 30 September 2000 and 20 November 2000 there were no changes in the Directors' interests referred to above.

remuneration report continued

As at 30 September 2000 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 1998 Share Bonus Plan, the Airtours plc 1999 executive share option scheme or the Airtours plc SAYE schemes.

		At 30 September 2000	Lapsed in year	Exercised in year	Granted in year	At 1 October 1999	Exercise price	Date from which exercisable	Expiry date
T R Byrne	Class 2	210,000	–	–	–	210,000	149.50p	05.08.99	04.08.04
	Class 2	150,000	–	–	–	150,000	135.67p	14.07.00	13.07.05
	SAYE	8,859	–	–	–	8,859	194.70p	01.03.02	31.08.02
A H Coe	Class 2	–	–	121,620	–	121,620	38.56p	05.07.96	04.07.01
	Class 1	–	–	150,000	–	150,000	149.50p	05.08.97	04.08.04
	Class 2	–	–	150,000	–	150,000	149.50p	05.08.99	04.08.04
D Jardine	1999 Executive Scheme:								
	Unapproved Options	275,384	–	–	275,384	–	290.50p	*	*
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
	SAYE	8,307	–	–	8,307	–	203.14p	01.06.05	30.11.05
P F Rothwell	Class 2	450,000	–	–	–	450,000	135.67p	14.07.00	13.07.05
	Class 2	150,000	–	–	–	150,000	136.33p	16.07.00	15.07.05
	SAYE	8,859	–	–	–	8,859	194.70p	01.03.02	31.08.02
	1998 Share Bonus Plan	54,906	–	97,000	–	151,906	100.00p(1)	01.09.00	27.09.00(3)
	1999 Executive Scheme:								
	Unapproved Options	107,112	17,440(2)	–	–	124,552	421.50p	*	*
	Unapproved Options	268,224	–	–	268,224	–	290.50p	*	*
L Thuesen	1999 Executive Scheme:								
	Approved Options	7,653	–	–	–	7,653	392.00p	*	*
	Unapproved Options	151,527	39,796(2)	–	–	191,323	392.00p	*	*
	Unapproved Options	268,224	–	–	268,224	–	290.50p	*	*
	SAYE	8,307	–	–	8,307	–	203.14p	01.06.05	30.11.05

(1) The exercise price is payable for the total number of shares under option or on each exercise of part.

(2) The number of unapproved options granted to Mr P F Rothwell and Mr L Thuesen in the year ended 30 September 1999 were reduced during the year ended 30 September 2000 to the extent that their individual bonus targets for the year ended 30 September 1999 had not been met.

(3) The last date for the exercise of rights under the 1998 Share Bonus Plan may be extended by the Board if it is not in a position to grant consents to dealing at the time of expiry.

* 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.

The mid-market price of the Company's ordinary shares at the close of business on 30 September 2000 was 215.50p (1999: 387p) and the range during the financial year ended 30 September 2000 was 202p to 430p. 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 2000 and the preceding financial year.

		Exercised year ended 30 September 2000	Exercised year ended 30 September 1999	Exercise price	Market price at date of exercise	Gain year ended 30 September 2000 £	Gain year ended 30 September 1999 £
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	–
	SAYE	–	18,795	91.70p	484.50p	–	73,827
H H Collinson	SAYE	–	18,795	91.70p	376.50p	–	53,528
M C Lee	SAYE	–	18,795	91.70p	484.50p	–	73,827
P F Rothwell	1998 Share Bonus Plan	97,000	–	100.00p(1)	285.00p	276,449	–

(1) 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 with the exception of the new policies introduced following the adoption by the Company of Financial Reporting Standard 15 (Tangible Fixed Assets) and Urgent Issues Task Force (UITF) Abstract 24 (Accounting for start-up costs). Further details are given in note 11.

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

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

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

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

Following the introduction of UITF 24, 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 below, fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

8 **Associated and joint venture undertakings** Undertakings, other than subsidiary undertakings, in which the Group has a long-term participating interest 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 estimated to be in effect in the year in which the timing differences reverse. Provision is not made for tax which would be payable if the net profit of overseas subsidiaries, joint ventures and associated undertakings were remitted to the UK.

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. 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 and the actual results are translated using the hedged rates. Average exchange rates are used to translate the results of all other overseas subsidiary undertakings and the balance sheets of such overseas subsidiary undertakings are translated at year end exchange rates and the resulting exchange differences are dealt with through reserves.

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

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

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

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

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-exceptional operating items 2000 £m	Exceptional operating items (note 2) 2000 £m	Total 2000 £m	Pre-exceptional operating items restated 1999 £m	Exceptional operating items (note 2) 1999 £m	Total restated 1999 £m
Turnover: Group and share of joint ventures	1(a)						
Existing operations		3,753.2	–	3,753.2	3,436.1	–	3,436.1
Acquisitions		354.9	–	354.9	–	–	–
Continuing operations		4,108.1	–	4,108.1	3,436.1	–	3,436.1
Discontinued operations		326.7	–	326.7	335.2	–	335.2
		4,434.8	–	4,434.8	3,771.3	–	3,771.3
Less: share of joint ventures' turnover	1(a)						
Existing operations		(302.0)	–	(302.0)	(267.1)	–	(267.1)
Acquisitions		(0.4)	–	(0.4)	–	–	–
Discontinued operations		(183.4)	–	(183.4)	(194.9)	–	(194.9)
Group turnover		3,949.0	–	3,949.0	3,309.3	–	3,309.3
Cost of sales	3	(3,347.9)	(5.6)	(3,353.5)	(2,824.7)	–	(2,824.7)
Gross profit		601.1	(5.6)	595.5	484.6	–	484.6
Net operating expenses pre-goodwill		(515.9)	(15.3)	(531.2)	(389.3)	(4.5)	(393.8)
Goodwill	12	(13.3)	–	(13.3)	(1.1)	–	(1.1)
Net operating expenses	3	(529.2)	(15.3)	(544.5)	(390.4)	(4.5)	(394.9)
Operating profit	1(b)						
Existing operations		77.1	(17.9)	59.2	100.0	(4.5)	95.5
Acquisitions		9.8	(3.0)	6.8	–	–	–
Continuing operations		86.9	(20.9)	66.0	100.0	(4.5)	95.5
Discontinued operations		(15.0)	–	(15.0)	(5.8)	–	(5.8)
Group operating profit		71.9	(20.9)	51.0	94.2	(4.5)	89.7
Income from interests in continuing joint venture undertakings	1(c)	(33.3)	(11.3)	(44.6)	(4.9)	–	(4.9)
Income from interests in discontinued joint venture undertaking	1(c)	31.6	–	31.6	41.1	–	41.1
Group and share of joint ventures' operating profit		70.2	(32.2)	38.0	130.4	(4.5)	125.9
Exceptional items							
Profit on sale of tangible fixed assets	1(d)			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)			–
Costs of a fundamental reorganisation	1(f)			(37.3)			–
Profit on disposal of joint venture undertaking	14			235.8			–
Profit on ordinary activities before finance charges				218.1			125.9
Finance charges (net)	1(g), 4						
Group				2.5			11.8
Joint ventures				(9.2)			(11.8)
Profit on ordinary activities before tax	1(h), 5			211.4			125.9
Tax on profit on ordinary activities	7			(25.0)			(32.3)
Profit on ordinary activities after tax				186.4			93.6
Equity minority interests				(0.3)			0.2
Non-equity minority interests	26			(14.8)			–
Profit for the financial year	8			171.3			93.8
Dividends	9			(43.9)			(39.4)
Profit retained	25			127.4			54.4
Earnings per share	10						
Basic				35.98p			19.74p
– pre-goodwill and exceptional items				9.12p			20.90p
– pre-goodwill				38.77p			19.97p
Diluted				34.10p			19.53p
– pre-goodwill and exceptional items				10.69p			20.68p
– pre-goodwill				36.53p			19.75p

The accounting policies on pages 30 and 31 and notes on pages 37 to 61 form part of these accounts.

group balance sheet

At 30 September	note	2000 £m	Restated 1999 £m
Fixed assets			
Intangible assets – goodwill	12	557.4	36.9
Tangible assets	13	513.5	417.8
Joint venture undertakings	14		
Share of gross assets		53.4	422.6
Share of gross liabilities		(31.5)	(332.1)
		21.9	90.5
Other investments	14	10.8	14.4
		32.7	104.9
Total fixed assets		1,103.6	559.6
Current assets			
Stocks	15	17.2	11.4
Debtors: amounts falling due within one year	16	551.6	446.3
Debtors: amounts falling due after one year	17	160.6	104.2
Investments	18	–	12.0
Cash and deposits	19	793.3	554.2
		1,522.7	1,128.1
Creditors: amounts falling due within one year	20	(1,273.9)	(942.8)
Net current assets		248.8	185.3
Total assets less current liabilities		1,352.4	744.9
Creditors: amounts falling due after one year			
Convertible debt	21	(285.3)	(292.3)
Other creditors	21	(410.1)	(144.4)
		(695.4)	(436.7)
Provisions for liabilities and charges	23	(113.4)	(100.1)
Net assets	1(i)	543.6	208.1
Capital and reserves			
Called up share capital	24	49.1	47.8
Share premium account	25	107.5	92.5
Capital redemption reserve	25	3.2	3.2
Other reserves	25	18.0	–
Profit and loss account	25	157.0	63.8
Equity shareholders' funds		334.8	207.3
Equity minority interests		1.2	0.8
Non-equity minority interests	26	207.6	–
		543.6	208.1

The accounts were approved by the Board of Directors on 21 November 2000.

D Jardine
Director

D. Jardine

The accounting policies on pages 30 and 31 and notes on pages 37 to 61 form part of these accounts.

company balance sheet

At 30 September	note	2000 £m	Restated 1999 £m
Fixed assets			
Tangible assets	13	38.2	45.3
Investments	14	551.9	420.1
Total fixed assets		590.1	465.4
Current assets			
Stocks	15	3.2	2.1
Debtors: amounts falling due within one year	16	1,804.5	758.5
Debtors: amounts falling due after one year	17	107.0	77.1
Investments	18	–	12.0
Cash and deposits	19	536.5	373.9
		2,451.2	1,223.6
Creditors: amounts falling due within one year	20	(2,001.6)	(832.5)
Net current assets		449.6	391.1
Total assets less current liabilities		1,039.7	856.5
Creditors: amounts falling due after one year			
Convertible debt	21	(285.3)	(292.3)
Other creditors	21	(266.8)	(54.8)
		(552.1)	(347.1)
Provisions for liabilities and charges	23	–	(4.4)
Net assets		487.6	505.0
Capital and reserves			
Called up share capital	24	49.1	47.8
Share premium account	25	107.5	92.5
Capital redemption reserve	25	3.2	3.2
Other reserves	25	153.6	153.6
Profit and loss account	25	174.2	207.9
Equity shareholders' funds		487.6	505.0

The accounts were approved by the Board of Directors on 21 November 2000.

D Jardine
Director

The accounting policies on pages 30 and 31 and notes on pages 37 to 61 form part of these accounts.

group cash flow statement

Year ended 30 September	note	2000 £m	Restated 1999 £m
Net cash inflow from operating activities	27	133.9	99.2
Returns on investments and servicing of finance			
Interest received		41.6	35.2
Interest paid		(31.3)	(24.6)
Interest element of finance leases		(4.2)	(0.9)
Issue costs of Convertible Bonds due 2004		–	(9.1)
Issue costs of undated preference shares	26	(4.8)	–
Dividends paid on undated preference shares	26	(12.4)	–
Minority interests		0.1	(0.2)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(11.0)	0.4
Tax paid		(8.9)	(17.6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(224.3)	(164.4)
Purchase of fixed asset investments		(1.3)	(13.8)
Loans to joint venture undertakings		(77.3)	(23.3)
Sale of tangible fixed assets		87.8	2.4
Sale of fixed asset investments		–	0.8
Loans to joint venture undertaking repaid		–	10.2
Net cash outflow from capital expenditure and financial investment		(215.1)	(188.1)
Acquisitions and disposals	14		
Purchase of subsidiary undertakings		(337.8)	(32.7)
Acquisition expenses		(10.4)	(0.8)
Cash at bank and in hand acquired with subsidiaries		53.4	1.1
Sale of subsidiary undertaking		0.7	–
Investment in joint venture undertakings		(14.5)	–
Sale of joint venture undertaking		350.0	–
Disposal expenses		(2.2)	–
Net cash inflow/(outflow) from acquisitions and disposals		39.2	(32.4)
Equity dividends paid		(40.1)	(36.3)
Cash outflow before use of liquid resources and financing		(102.0)	(174.8)
Management of liquid resources			
Movement on term deposits		(140.3)	(172.1)
Purchase of securities under managed investment		–	(23.7)
Sale of current asset investments		13.2	22.8
Net cash outflow from management of liquid resources		(127.1)	(173.0)
Financing			
Issue of shares		1.3	3.7
Issue of Convertible Bonds due 2004		–	300.0
Issue of undated preference shares		210.0	–
Loan repayments		(87.4)	(5.4)
New bank loans		250.0	–
Capital element of finance lease rental payments		(17.0)	(6.5)
New finance leases		–	70.4
Net cash inflow from financing		356.9	362.2
Increase in cash in the year		127.8	14.4

The accounting policies on pages 30 and 31 and notes on pages 37 to 61 form part of these accounts.

group cash flow statement continued

Year ended 30 September	note	2000 £m	1999 £m
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		127.8	14.4
Cash inflow from increase in debt and lease financing		(145.6)	(358.5)
Cash outflow from increase in liquid resources		127.1	173.0
Changes in net debt resulting from cash flows		109.3	(171.1)
Loans and finance leases acquired with subsidiary undertakings		(35.5)	–
Loan notes issued in year		(7.0)	(1.1)
Transfer of Convertible Bonds due 2004 redeemed 29 September 2000, settled 2 October 2000		9.0	–
Issue costs of Convertible Bonds due 2004		(2.0)	7.7
Profit on sale of current asset investments		1.2	–
Exchange differences		(32.5)	3.8
Movement in net funds in the year		42.5	(160.7)
Net funds brought forward		116.4	277.1
Net funds carried forward	28	158.9	116.4

group statement of total recognised gains and losses

Year ended 30 September	2000 £m	Restated 1999 £m
Profit for the financial year	171.3	93.8
Currency differences on foreign currency net investments	(19.6)	(3.1)
Total recognised gains and losses relating to the year	151.7	90.7
Prior year adjustment (see note 11)	(40.0)	
Total gains and losses recognised since last Annual Report and Accounts	111.7	

reconciliation of movements in group shareholders' funds

	2000 £m	Restated 1999 £m
Profit for the financial year	171.3	93.8
Dividends	(43.9)	(39.4)
	127.4	54.4
Exchange differences	(19.6)	(3.1)
Issue of shares (net of expenses)	34.2	3.7
Goodwill written (back)/off to reserves (see note 14)	(14.5)	5.9
Net increase in shareholders' funds	127.5	60.9
Equity shareholders' funds at 1 October (1 October 1999 originally £247.3m before prior year adjustment of £40.0m)	207.3	146.4
Equity shareholders' funds at 30 September	334.8	207.3

The accounting policies on pages 30 and 31 and notes on pages 37 to 61 form part of these accounts.

notes to the accounts

1 **SEGMENTAL INFORMATION**

			2000 £m	1999 £m
a **Turnover**				
UK	existing operations		2,182.3	1,838.3
	acquisitions		141.5	–
Other Europe	existing operations		926.3	1,007.1
	acquisitions		92.8	–
	discontinued operations		143.3	140.3
North America	existing operations		342.6	323.6
	acquisitions		120.2	–
Group			3,949.0	3,309.3
Joint ventures				
	existing operations			
		FTi	293.9	251.8
		Tenerife Sol	8.1	9.8
		Lake Eve	–	5.5
	acquisitions			
		Hotetur	0.4	–
	discontinued operations			
		Costa	183.4	194.9
Group and share of joint ventures			4,434.8	3,771.3

On 1 October 1999 the Company acquired the remaining 50% of Lake Eve. Its results for 2000 are shown in UK – acquisitions, while for 1999 its results, representing the Group's share, are shown in Joint ventures – existing operations.

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, together with the Group's share of its results for the year ended 30 September 1999 are shown in Joint ventures – existing operations. FTi's results for the period from 4 September 2000 are shown in Other Europe – acquisitions.

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

		Pre-goodwill and exceptional <-- operating items --> 2000 £m	Restated 1999 £m	<------ Goodwill ------> 2000 £m	1999 £m	Exceptional <-- operating items --> 2000 £m	1999 £m	Total 2000 £m	Restated Total 1999 £m
b **Operating profit**									
UK	existing operations	85.5	80.3	(1.3)	(0.6)	(11.2)	(4.5)	73.0	75.2
	acquisitions	11.7	–	(2.6)	–	–	–	9.1	–
Other Europe	existing operations	10.3	33.5	(0.9)	(0.4)	(2.7)	–	6.7	33.1
	acquisitions	(9.2)	–	(1.0)	–	(3.0)	–	(13.2)	–
	discontinued operations	(15.0)	(5.8)	–	–	–	–	(15.0)	(5.8)
North America	existing operations	(16.2)	(12.7)	(0.3)	(0.1)	(4.0)	–	(20.5)	(12.8)
	acquisitions	18.1	–	(7.2)	–	–	–	10.9	–
		85.2	95.3	(13.3)	(1.1)	(20.9)	(4.5)	51.0	89.7

		Pre-goodwill and exceptional <-- operating items --> 2000 £m	Restated 1999 £m	<------ Goodwill ------> 2000 £m	1999 £m	Exceptional <-- operating items --> 2000 £m	1999 £m	Total 2000 £m	Restated Total 1999 £m
c **Income from interests in joint venture undertakings**									
existing operations									
	FTi	(35.4)	(7.4)	–	–	(11.3)	–	(46.7)	(7.4)
	Tenerife Sol	2.0	2.9	–	–	–	–	2.0	2.9
	Lake Eve	–	(0.4)	–	–	–	–	–	(0.4)
acquisitions									
	Hotetur	0.1	–	–	–	–	–	0.1	–
continuing operations		(33.3)	(4.9)	–	–	(11.3)	–	(44.6)	(4.9)
discontinued operations									
	Costa	31.6	41.1	–	–	–	–	31.6	41.1

1 SEGMENTAL INFORMATION continued

d	2000 £m	1999 £m
Profit on sale of tangible fixed assets		
Continuing operations		
UK	7.5	–
Other Europe	4.0	–
Discontinued operations		
Other Europe	0.7	–
	12.2	–

The tax effect of the profit on sale of tangible fixed assets is £3.2m.

e Provision for losses on terminated operations

	2000 £m	1999 £m
UK	12.1	–
Other Europe	20.2	–
	32.3	–

The costs of the termination of operations in the UK represents the downsizing and exit of the Group from Vacation Ownership operations.

In Other Europe, the Group announced the closure of its Belgian charter airline operations and closed its tour operations in France and Belgium.

Goodwill written off as a result of the downsizing of Vacation Ownership and the closure of Air Belgium included in the above figures 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 all arise in the UK. They arise from the radical restructuring of the Group's UK operations resulting in the relocation of the majority of the UK back office employees to a single site in Rochdale and the associated write off of legacy systems due to the planned introduction of major new business processes. The tax benefit related to these costs is £11.0m.

g		2000 £m	1999 £m
Finance charges (net)			
Group			
UK	existing operations	5.6	7.9
	acquisitions	(1.7)	–
Other Europe	existing operations	10.0	8.2
	acquisitions	(0.1)	–
	discontinued operations	(1.6)	(0.9)
North America	existing operations	0.1	(3.4)
	acquisitions	(9.8)	–
		2.5	11.8
Joint ventures			
	existing operations		
	FTi	(2.9)	(1.5)
	Tenerife Sol	0.1	–
	Lake Eve	–	(0.8)
	discontinued operations		
	Costa	(6.4)	(9.5)
		(9.2)	(11.8)

notes to the accounts continued

		Pre-goodwill and <-- exceptional items --> 2000 £m	Restated 1999 £m	<------ Goodwill ------> 2000 £m	1999 £m	<-- Exceptional items --> 2000 £m	1999 £m	Total 2000 £m	Restated Total 1999 £m
1 SEGMENTAL INFORMATION continued									
h Profit on ordinary activities before tax									
UK	existing operations	91.1	88.2	(1.3)	(0.6)	191.1	(4.5)	280.9	83.1
	acquisitions	10.0	–	(2.6)	–	(8.4)	–	(1.0)	–
Other Europe	existing operations	20.3	41.7	(0.9)	(0.4)	1.3	–	20.7	41.3
	acquisitions	(9.3)	–	(1.0)	–	(3.0)	–	(13.3)	–
	discontinued operations	(16.6)	(6.7)	–	–	(19.5)	–	(36.1)	(6.7)
North America	existing operations	(16.1)	(16.1)	(0.3)	(0.1)	(4.0)	–	(20.4)	(16.2)
	acquisitions	8.3	–	(7.2)	–	–	–	1.1	–
Joint ventures	existing operations								
	FTi	(38.3)	(8.9)	–	–	(11.3)	–	(49.6)	(8.9)
	Tenerife Sol	2.1	2.9	–	–	–	–	2.1	2.9
	Lake Eve	–	(1.2)	–	–	–	–	–	(1.2)
	acquisitions								
	Hotetur	0.1	–	–	–	–	–	0.1	–
	discontinued operations								
	Costa	25.2	31.6	–	–	1.7	–	26.9	31.6
Profit on ordinary activities before tax		76.8	131.5	(13.3)	(1.1)	147.9	(4.5)	211.4	125.9

	2000 £m	Restated 1999 £m
i Net assets/(liabilities)		
United Kingdom	282.6	122.7
Other Europe	273.3	98.1
North America	(12.3)	(12.7)
	543.6	208.1

2 EXCEPTIONAL OPERATING ITEMS

				2000 £m	1999 £m
UK	existing operations	i	Apollon contract termination	5.6	–
		ii	retirement of directors	2.2	–
		iii	reorganisation costs	3.4	–
		iv	abortive bid costs	–	4.5
Other Europe	existing operations	iii	reorganisation costs	2.7	–
	acquisitions	iii	reorganisation costs	3.0	–
North America	existing operations	iii	reorganisation costs	4.0	–
Joint ventures	existing operations	v	deposits and hotel guarantees	11.3	–
				32.2	4.5

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 the year.

iii The costs associated with the reorganisation and restructuring of certain businesses in the UK, Netherlands, Germany and North America.

iv The costs of the offers for First Choice Holidays PLC which lapsed on 10 June 1999 and the costs associated with the European Commission's investigation into those offers.

v 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.

notes to the accounts continued

3 COST OF SALES AND NET OPERATING EXPENSES	Existing operations 2000 £m	Acquisitions 2000 £m	Discontinued operations 2000 £m	Total 2000 £m	Existing operations 1999 £m	Discontinued operations 1999 £m	Restated Total 1999 £m
Cost of sales	2,965.9	239.1	148.5	3,353.5	2,681.3	143.4	2,824.7
Net operating expenses							
Selling and marketing costs	181.9	35.6	4.1	221.6	163.8	0.3	164.1
Administrative expenses	244.2	73.0	5.7	322.9	228.4	2.4	230.8
	426.1	108.6	9.8	544.5	392.2	2.7	394.9

Included within cost of sales are £5.6m of exceptional items (1999: £nil) relating to existing operations. Included within administrative expenses are £15.3m of exceptional items (1999: £4.5m), £12.3m (1999: £4.5m) relate to existing operations and £3.0m to acquisitions.

4 FINANCE CHARGES (NET)	2000 £m	1999 £m
Interest payable on:		
– bank borrowings	(11.1)	(10.9)
– other borrowings	(25.2)	(17.4)
Share of joint ventures' interest payable (see note 1 (g))	(9.2)	(11.8)
Finance charges in respect of finance leases	(4.2)	(0.9)
	(49.7)	(41.0)
Interest capitalised	4.8	0.3
	(44.9)	(40.7)
Bank interest receivable	38.2	40.7
	(6.7)	–

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	Group 2000 £m	Group 1999 £m
The profit on ordinary activities is stated after charging/(crediting):		
Auditors' remuneration for audit services	1.2	0.8
Depreciation of tangible fixed assets		
– owned	67.5	46.0
– held under finance leases	6.6	12.8
Amortisation of goodwill	13.3	1.1
Operating lease payments		
– hire of aircraft and aircraft spares	128.1	95.9
– other	63.0	51.4
Exceptional operating items (see note 2)	32.2	4.5
Profit on sale of tangible fixed assets	(13.9)	(0.9)
Provision for losses on terminated operations (see note 1 (e))	32.3	–
Costs of a fundamental reorganisation (see note 1 (f))	37.3	–
E-commerce costs	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 £3.6m (1999: £5.6m).

6 DIRECTORS AND EMPLOYEES	2000 £m	1999 £m
Staff costs during the year were as follows:		
Wages and salaries	392.2	297.6
Social security costs	40.8	34.2
Other pension costs (see note 31)	11.0	9.6
	444.0	341.4

The average number of employees of the Group during the year was 24,316 (1999: 19,949).

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 25 to 29 within the Remuneration Report and form part of these audited accounts.

notes to the accounts continued

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

		2000 £m	Restated 1999 £m
The tax charge is based on the profit for the year and is made up as follows:			
UK	corporation tax at 30% (1999: 30.5%)	21.5	16.9
	deferred tax	4.2	8.9
		25.7	25.8
Overseas	corporation tax	9.3	5.1
	deferred tax	9.3	3.4
	tax on share of (losses)/profits of joint ventures	(8.9)	1.0
		35.4	35.3
Adjustments in respect of prior years			
UK	corporation tax	(1.4)	1.0
	deferred tax	(7.5)	(0.2)
Overseas	corporation tax	0.7	0.5
	tax on share of losses of joint ventures	(2.2)	(4.3)
		25.0	32.3

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 £10.3m (1999: £68.9m as restated).

9 DIVIDENDS

	2000 £m	1999 £m
Equity dividends: ordinary		
Interim dividend of 1.80p per share paid 3 July 2000 (1999: 1.65p)	8.6	7.9
Final dividend of 7.20p per share payable 16 February 2001 (1999: 6.60p)	35.5	31.6
Dividends paid and proposed to be paid to Employee Share Ownership Plan Trusts (ESOP) shares	(0.2)	(0.1)
	43.9	39.4

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	2000 Weighted average number of shares millions*	Per share amount p	Restated earnings £m	1999 Weighted average number of shares millions*	Restated per share amount p
Basic earnings per share						
Profit attributable to ordinary shareholders	171.3	476.4	35.98	93.8	475.4	19.74
Effect of dilutive securities:						
Options	–	2.5	(0.19)	–	5.1	(0.21)
Convertible Bonds**	15.0	67.7	(1.69)	–	–	–
Diluted earnings per share						
Adjusted profit	186.3	546.6	34.10	93.8	480.5	19.53

* The number of shares has been reduced by 2.9m being the weighted average number of shares held by the employee share ownership trusts (1999: 1.4m).

** The Convertible Bonds are antidilutive and have been ignored in the calculation of diluted earnings per share for 1999.

notes to the accounts continued

10 EARNINGS PER SHARE continued	Earnings £m	2000 Weighted average number of shares millions	Per share amount p	Restated earnings £m	1999 Weighted average number of shares millions	Restated per share amount p
Supplementary earnings per share to exclude goodwill amortisation and exceptional items						
Basic earnings per share	171.3	476.4	35.98	93.8	475.4	19.74
Effect of goodwill amortisation	13.3	–	2.79	1.1	–	0.23
Basic earnings per share pre-goodwill amortisation	184.6	476.4	38.77	94.9	475.4	19.97
Exceptional items (including tax effect of £6.7m)	(141.2)	–	(29.65)	4.5	–	0.93
Basic earnings per share pre-goodwill amortisation and exceptional items	43.4	476.4	9.12	99.4	475.4	20.90
Diluted earnings per share	186.3	546.6	34.10	93.8	480.5	19.53
Effect of goodwill amortisation	13.3	–	2.43	1.1	–	0.22
Diluted earnings per share pre-goodwill amortisation	199.6	546.6	36.53	94.9	480.5	19.75
Exceptional items (including tax effect of £6.7m)	(141.2)	–	(25.84)	4.5	–	0.93
Diluted earnings per share pre-goodwill amortisation and exceptional items	58.4	546.6	10.69	99.4	480.5	20.68

11 PRIOR YEAR ADJUSTMENTS

The Group policy for start-up costs was changed during the year. Previously these costs were treated as either fixed assets or prepayments dependent on their nature. For the financial year ended 30 September 2000 the policy has been changed to comply with FRS 15 and UITF 24. The comparative figures in the primary statements and notes have been restated to reflect these new policies.

The effects of the changes in policies have been to reduce the Group profit before tax in the current year by £13.6m and increase the Company profit before tax in the current year by £0.9m. The effects of the changes in policies are included below:

	Group 2000 £m	Company 2000 £m	Group 1999 £m	Company 1999 £m
Profit and loss account				
Increase/(decrease) in cost of sales	4.0	(0.9)	14.0	3.1
Increase in administrative expenses	2.2	–	1.8	–
Increase in other charges	7.4	–	6.5	–
Reduction in income from interests in continuing joint venture undertakings	–	–	2.7	–
Tax	(2.4)	0.3	(3.5)	(0.9)
Decrease/(increase) in profit for the financial year	11.2	(0.6)	21.5	2.2
Balance sheet				
Fixed assets	22.6	5.1	18.7	6.0
Fixed asset investments	2.7	–	2.7	–
Debtors falling due within one year	23.1	–	13.4	–
Debtors falling due after one year	11.2	–	11.2	–
Current Tax	(8.4)	(1.7)	(6.0)	(2.0)
Decrease in net assets	51.2	3.4	40.0	4.0

notes to the accounts continued

12 INTANGIBLE ASSETS – GOODWILL

	Group £m	Company £m
Cost		
At 1 October 1999	38.0	–
Additions of subsidiary undertakings (see note 14)	484.8	–
Additions of joint venture undertakings (see note 14)	17.5	–
Acquired with subsidiary undertakings (see note 14)	17.1	–
Exchange differences	18.8	–
At 30 September 2000	576.2	–
Amortisation		
At 1 October 1999	1.1	–
Provided in year	13.3	–
Provided against terminated operations (see note 1(e))	4.3	–
Exchange differences	0.1	–
At 30 September 2000	18.8	–
Net book value at 30 September 2000	557.4	–
Net book value at 30 September 1999	36.9	–

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

13 TANGIBLE FIXED ASSETS

	Total £m	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Cruise ships £m	Other fixed assets £m
Group						
Cost						
At 1 October 1999 (as previously reported)	636.9	94.6	42.4	183.4	73.4	243.1
Prior year adjustment (see note 11)	(21.5)	(0.5)	–	(1.4)	(10.9)	(8.7)
At 1 October 1999 (as restated)	615.4	94.1	42.4	182.0	62.5	234.4
Additions	224.1	79.6	10.8	56.0	4.0	73.7
Acquisition of subsidiary undertakings	70.0	30.5	1.0	–	–	38.5
Reclassifications	–	(0.8)	(1.0)	0.7	7.9	(6.8)
Exchange differences	(3.4)	(5.1)	(0.4)	3.2	–	(1.1)
	906.1	198.3	52.8	241.9	74.4	338.7
Disposals	(110.7)	(1.4)	(3.9)	(25.5)	–	(79.9)
Disposal of subsidiary undertakings	(2.6)	–	–	–	–	(2.6)
At 30 September 2000	792.8	196.9	48.9	216.4	74.4	256.2
Depreciation						
At 1 October 1999 (as previously reported)	200.4	15.9	14.8	57.3	22.9	89.5
Prior year adjustment (see note 11)	(2.8)	(0.2)	–	(0.1)	(2.5)	–
At 1 October 1999 (as restated)	197.6	15.7	14.8	57.2	20.4	89.5
Provided in year	74.1	4.0	6.5	28.3	6.5	28.8
Provided against legacy systems	25.3	–	–	–	–	25.3
Provided against terminated operations	5.6	4.0	0.1	–	–	1.5
Acquisition of subsidiary undertakings	18.3	1.5	0.4	–	–	16.4
Exchange differences	(2.4)	(1.6)	–	0.6	–	(1.4)
	318.5	23.6	21.8	86.1	26.9	160.1
Disposals	(36.8)	(0.4)	(2.4)	(4.3)	–	(29.7)
Disposal of subsidiary undertakings	(2.4)	–	–	–	–	(2.4)
At 30 September 2000	279.3	23.2	19.4	81.8	26.9	128.0
Net book value at 30 September 2000	513.5	173.7	29.5	134.6	47.5	128.2
Net book value at 30 September 1999 (as previously reported)	436.5	78.7	27.6	126.1	50.5	153.6
Net book value at 30 September 1999 (as restated)	417.8	78.4	27.6	124.8	42.1	144.9

13 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 1999 (as previously reported)	81.8	2.6	4.1	–	–	75.1
Prior year adjustment (see note 11)	(7.2)	–	–	–	–	(7.2)
At 1 October 1999 (as restated)	74.6	2.6	4.1	–	–	67.9
Additions	32.9	–	0.1	–	–	32.8
	107.5	2.6	4.2	–	–	100.7
Disposals	(15.5)	–	(1.9)	–	–	(13.6)
At 30 September 2000	92.0	2.6	2.3	–	–	87.1
Depreciation						
At 1 October 1999 (as previously reported)	30.5	0.1	1.5	–	–	28.9
Prior year adjustment (see note 11)	(1.2)	–	–	–	–	(1.2)
At 1 October 1999 (as restated)	29.3	0.1	1.5	–	–	27.7
Provided in year	10.1	–	1.4	–	–	8.7
Provided against legacy systems	25.3	–	–	–	–	25.3
	64.7	0.1	2.9	–	–	61.7
Disposals	(10.9)	–	(1.9)	–	–	(9.0)
At 30 September 2000	53.8	0.1	1.0	–	–	52.7
Net book value at 30 September 2000	38.2	2.5	1.3	–	–	34.4
Net book value at 30 September 1999 (as previously reported)	51.3	2.5	2.6	–	–	46.2
Net book value at 30 September 1999 (as restated)	45.3	2.5	2.6	–	–	40.2

Freehold land, amounting to £34.5m (1999: £25.1m) for the Group and £2.2m (1999: £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 (1999: £3.1m) and £0.3m for the Company (1999: £0.3m).

	Group 2000 £m	Group 1999 £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	4.1	5.8
Aircraft spares	12.1	25.1
Cruise ships	40.1	47.6
Other fixed assets	0.2	1.3
	56.5	79.8

notes to the accounts continued

14 FIXED ASSET INVESTMENTS	Total £m	Own shares held under trust £m	Subsidiary undertakings £m	Joint venture undertakings £m	Associated undertakings £m	Other investments £m
Group						
Cost						
At 1 October 1999 (as previously reported)	107.6	12.5	–	93.2	0.1	1.8
Prior year adjustment (see note 11)	(2.7)	–	–	(2.7)	–	–
At 1 October 1999 (as restated)	104.9	12.5	–	90.5	0.1	1.8
Additions	12.7	–	–	11.4	–	1.3
Exchange differences	(7.4)	–	–	(7.4)	–	–
Reclassifications	4.7	–	–	4.7	–	–
Acquired with subsidiary undertakings	2.0	–	–	–	1.4	0.6
Transfer to subsidiary undertakings	55.3	–	–	55.3	–	–
Transfers to participants	(1.6)	(1.6)	–	–	–	–
Disposal of joint venture undertakings	(126.5)	–	–	(126.5)	–	–
Share of losses	(6.2)	–	–	(6.1)	(0.1)	–
At 30 September 2000	37.9	10.9	–	21.9	1.4	3.7
Amounts written off						
At 1 October 1999	–	–	–	–	–	–
Written off	5.2	5.2	–	–	–	–
At 30 September 2000	5.2	5.2	–	–	–	–
Net book value at 30 September 2000	32.7	5.7	–	21.9	1.4	3.7
Net book value at 30 September 1999 (as previously reported)	107.6	12.5	–	93.2	0.1	1.8
Net book value at 30 September 1999 (as restated)	104.9	12.5	–	90.5	0.1	1.8
Company						
Cost						
At 1 October 1999	420.1	7.1	412.5	0.5	–	–
Additions	165.4	–	136.6	28.8	–	–
Reclassification on acquisition of FTi	–	–	0.5	(0.5)	–	–
Transfers to participants	(1.6)	(1.6)	–	–	–	–
Transfer to other Group companies	(29.9)	–	(29.9)	–	–	–
At 30 September 2000	554.0	5.5	519.7	28.8	–	–
Amounts written off						
At 1 October 1999	–	–	–	–	–	–
Written off	2.1	2.1	–	–	–	–
At 30 September 2000	2.1	2.1	–	–	–	–
Net book value at 30 September 2000	551.9	3.4	519.7	28.8	–	–
Net book value at 30 September 1999	420.1	7.1	412.5	0.5	–	–

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

The number of shares held at 30 September 2000 by Airtours Trustee Limited and Mourant & Co Trustees Limited was 1,059,005 (1999: 1,495,616) and 1,612,500 (1999: 1,612,500) respectively. These shares had a market value at that date of £5.7m (1999: £12.0m).

notes to the accounts continued

14 FIXED ASSET INVESTMENTS continued

Subsidiary undertakings

A list of principal subsidiary and joint venture undertakings is shown in note 34 to the accounts on pages 60 and 61. All of the subsidiary undertakings have been consolidated in the Group accounts.

On 1 October 1999 the Company purchased Emerson Resorts International Limited (now known as Carousel Resorts International Limited) and, as a consequence, acquired the remaining 50% of the Lake Eve Vacation Ownership development in Florida, for a consideration of £1.5m.

On 4 September 2000 the Group acquired the remaining issued share capital of Frosch Touristik GmbH (FTi). In connection with the acquisition, 6,740,313 new ordinary shares were issued to the former shareholders of FTi together with a cash consideration of DM17.3m (£5.4m) resulting in a total consideration of £43.5m being paid for the purchase of three separate tranches of FTi's shares. The Companies Act 1985 normally requires goodwill arising on the acquisition of a subsidiary undertaking to be calculated as the difference between the total acquisition cost of the undertaking and the fair value of the Group's share of the identifiable assets and liabilities at the date it became a subsidiary undertaking. Financial Reporting Standard 2 recognises that, where an investment in an associated undertaking is increased and it becomes a subsidiary undertaking, in order to show a true and fair view goodwill should be calculated on each purchase as the difference between the cost of that purchase and the fair value at the date of that purchase. If goodwill had been calculated in accordance with the basis set out in the Companies Act 1985, £55.3m of the Group's share of the retained deficit of FTi would have been reclassified as goodwill and in total goodwill of £165.9m would have been recognised. In accordance with section 131 and 133 of the Companies Act 1985, the Company has taken no account of any premium on the shares issued and has recorded the cost of the investment at the nominal value of the shares issued plus the fair value of the other consideration. The resulting difference arising on consolidation has been credited to other reserves.

On 27 March 2000 the Group completed the acquisition of Travel Services International, Inc (TSI) for a consideration of £242.7m. TSI is a major distributor of leisure travel products in the US market with leading positions in the distribution of cruise holidays, the distribution of scheduled airline tickets, the arrangement and distribution of auto rental services, the organisation and operation of alumni holidays and the provision of hotel booking services.

On 30 March 2000 the Group acquired for a consideration of £49.0m the entire share capital of Hoteles Don Pedro, S.A., a hotel management company which owns one hotel and which has been granted leases to operate the 28 hotels of the Globales Group of Companies, one of Spain's leading hotel companies.

In addition, during the year the Group acquired Manos (UK) Limited, Jetset Europe plc and Sunway Travel (Coaching) Limited in the United Kingdom. In North America, the Group also acquired the Holiday Network, Total Travel Marketing and Avion Travel and increased its 65% interest in Servicios de Administracion y Operacion de Hoteles, SA de CV, which operates the Blue Bay Resorts chain in Mexico and the Caribbean, to 90%. In addition, five travel shops were acquired in Belgium by Holiday Store NV during the year.

The results of the above acquisitions have been consolidated using the acquisition method of accounting and the results of the most significant acquisitions are set out below:

Last financial year ended	TSI 31 December 1999 £m	FTi 30 September 1999 £m	Hoteles Don Pedro 31 December 1999 £m
Profit/(loss) after tax for the last financial year	4.5	(19.5)	0.3

The summarised profit and loss accounts for the period from the last financial year end to the date of acquisition, shown on the basis of the accounting policies in use prior to the acquisition are as follows:

Period ended	26 March 2000	3 September 2000	29 March 2000
Turnover	28.7	756.1	–
Cost of sales	(20.4)	(661.2)	–
Gross profit	8.3	94.9	–
Net operating expenses	(13.4)	(213.7)	(0.1)
Operating loss	(5.1)	(118.8)	(0.1)
Share of associates profits	–	0.7	–
Finance charges (net)	(0.2)	(4.4)	–
Loss on ordinary activities before tax	(5.3)	(122.5)	(0.1)
Tax on profit on ordinary activities	2.1	(0.3)	–
Loss on ordinary activities after tax	(3.2)	(122.8)	(0.1)
Minority interests	–	(0.2)	–
Loss for the financial period	(3.2)	(123.0)	(0.1)

The post acquisition profit after tax and minority interests of the above acquisitions included in the Group's results for the year ended 30 September 2000 were as follows:

Profit/(loss) after tax and minority interests	3.8	(13.0)	5.3

14 FIXED ASSET INVESTMENTS continued

The following table sets out the major classes of assets and liabilities acquired:

	TSI Book value £m	TSI Alignment of accounting policies £m	TSI Fair value adjustments £m	Hoteles Don Pedro Book value £m	Hoteles Don Pedro Fair value adjustments £m	FTi book value and fair value £m	Other acquisitions book value and fair value £m	Total fair value to the Group £m
Fixed assets								
Intangible	89.6	–	(89.6)	–	–	17.1	–	17.1
Tangible	23.1	–	(9.3)	0.3	6.2	12.9	18.5	51.7
Investments	–	–	–	–	–	2.0	–	2.0
Current assets								
Stocks	–	–	–	–	–	5.2	3.6	8.8
Debtors	24.5	(5.5)	–	–	–	56.6	29.5	105.1
Tax	4.8	–	(3.3)	–	–	2.1	0.5	4.1
Cash and deposits	23.9	0.1	–	0.6	–	25.0	24.8	74.4
Total assets	165.9	(5.4)	(102.2)	0.9	6.2	120.9	76.9	263.2
Creditors								
Overdrafts	–	–	–	–	–	(20.9)	(0.1)	(21.0)
Borrowings	(11.0)	–	–	–	–	–	(24.0)	(35.0)
Finance leases	(0.2)	–	–	–	–	–	(0.3)	(0.5)
Tax	–	–	–	–	–	–	(1.4)	(1.4)
Other creditors	(52.6)	–	(1.2)	(0.9)	–	(241.6)	(59.5)	(355.8)
Provisions								
Deferred tax	(4.3)	–	4.8	–	(2.2)	–	–	(1.7)
Pension provisions	–	–	–	–	–	(0.7)	–	(0.7)
Total liabilities	(68.1)	–	3.6	(0.9)	(2.2)	(263.2)	(85.3)	(416.1)
Net assets/(liabilities)	97.8	(5.4)	(98.6)	–	4.0	(142.3)	(8.4)	(152.9)
Joint ventures acquired:								
FTi								53.8
Lake Eve								1.5
Exchange difference on FTi reserves								1.5
Goodwill arising in prior years on purchase of interests in FTi								20.7
Goodwill arising in year								484.8
Consideration								409.4

The £5.5m shown as an alignment of accounting policies arising from the acquisition of TSI represents share offering costs not previously written off against share premium account. The principal fair value adjustments relate to the write off of intangible assets (goodwill), the write down of previously capitalised software costs and IT system costs offset by a reduction in deferred tax arising from the write off of capitalised software costs.

The fair value adjustments arising in Hoteles Don Pedro result from a professional valuation carried out on the owned hotel property.

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

	TSI £m	Hoteles Don Pedro £m	FTi £m	Other acquisitions £m	Total £m
Cash	242.7	49.0	25.0	40.7	357.4
Shares issued	–	–	18.5	–	18.5
Contingent consideration	–	–	–	16.1	16.1
Loan notes	–	–	–	7.0	7.0
Costs	5.7	1.8	0.7	2.2	10.4
	248.4	50.8	44.2	66.0	409.4

The cash outflow in the year arising from acquisitions, excluding costs, comprises:

	£m
Cash consideration noted above	357.4
Amount paid out in previous years relating to the acquisition of shareholdings in FTi	(19.6)
Net cash outflow in the year from acquisitions of subsidiary undertakings	337.8

notes to the accounts continued

14 FIXED ASSET INVESTMENTS continued

Joint venture undertakings The investment in joint venture undertakings at 30 September 2000 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 Company acquired its interest in Hotetur on 19 September 2000 for a cash payment of Pta 3,925m (£14.4m) together with the issue of 5,632,899 new ordinary shares. Based on a share price of 255.25p the consideration shares were also valued at £14.4m.

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

	2000 £m
Share of fair value of net assets acquired	11.4
Goodwill on acquisition	17.5
Total consideration	28.9
Represented by	
Cash	14.4
Shares issued	14.4
Costs	0.1
	28.9

In arriving at the fair value for Hotetur the book value at the date of acquisition was reduced by £1.4m to align Hotetur's accounting policies to those of the Group and, in order to reflect present values, fixed assets were increased by £39.6m. As a consequence of this increase in value, a deferred tax liability of £13.7m was created. In addition a £5.0m provision has been made against certain overseas debtors.

As noted above under 'subsidiary undertakings', Lake Eve Florida General Partnership and FTi, which had previously been joint venture undertakings, became wholly-owned subsidiary undertakings of the Group in October 1999 and September 2000 respectively.

In addition, on 29 September 2000 the Group completed the disposal of its 50% equity interest in Il Ponte SpA, the holding company of Costa Crociere SpA, to Carnival Corporation for a cash consideration of £350.0m.

The Group's share of Costa's trading results up to 29 September 2000 are made up as follows:

	2000 £m	1999 £m
Turnover	183.4	194.9
Profit before tax	26.9	31.6
Tax	9.1	4.2
Profit after tax	36.0	35.8

The profit on disposal of Costa is made up as follows:

	2000 £m
Disposal proceeds	350.0
Expenses	(2.2)
Net disposal proceeds	347.8
Value of investment	(126.5)
Negative goodwill on acquisition previously written off to reserves	14.5
Profit on disposal	235.8

The tax effect of this disposal was a charge of £14.0m.

The Group's share of its joint ventures' net assets at 30 September 2000 of £21.9m (1999: £90.5m as restated) is made up as follows:

	Total 2000 £m	Total Restated 1999 £m	Hotetur 2000 £m	Costa 1999 £m	Others 2000 £m	Others Restated 1999 £m
Fixed assets	38.8	327.0	28.8	305.0	10.0	22.0
Current assets	14.6	95.6	9.5	46.6	5.1	49.0
Gross assets	53.4	422.6	38.3	351.6	15.1	71.0
Liabilities due within one year	(11.5)	(111.0)	(10.0)	(56.4)	(1.5)	(54.6)
Liabilities due after one year	(20.0)	(221.1)	(17.1)	(203.1)	(2.9)	(18.0)
Total net assets/(liabilities)	21.9	90.5	11.2	92.1	10.7	(1.6)

Other investments Other investments in 2000 and 1999 are all unlisted and included at net book value.

notes to the accounts continued

15 STOCKS	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Vacation Ownership apartments held for resale	4.5	4.5	–	–
Goods held for resale	11.2	5.7	3.2	2.1
Consumables	1.5	1.2	–	–
	17.2	11.4	3.2	2.1

16 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group 2000 £m	Restated Group 1999 £m	Company 2000 £m	Company 1999 £m
Trade debtors	142.2	118.8	8.0	8.1
Amounts owed by subsidiary undertakings	–	–	1,630.1	633.5
Amounts owed by joint venture and associated undertakings	1.4	20.9	0.2	21.1
Current and deferred tax	–	–	9.3	–
Other debtors	102.6	74.7	23.6	11.6
Deposits and prepayments	305.4	231.9	133.3	84.2
	551.6	446.3	1,804.5	758.5

17 DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR	Group 2000 £m	Restated Group 1999 £m	Company 2000 £m	Company 1999 £m
Amounts owed by associated undertakings	–	5.4	–	–
Other debtors	29.0	8.0	–	–
Deposits and prepayments	131.6	90.8	107.0	77.1
	160.6	104.2	107.0	77.1

18 CURRENT ASSET INVESTMENTS	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
At 1 October	12.0	11.1	12.0	–
Additions	–	23.7	–	12.0
	12.0	34.8	12.0	12.0
Disposals	(12.0)	(22.8)	(12.0)	–
At 30 September	–	12.0	–	12.0

Current asset investments in 1999 comprised solely of listed investments.

The market value of the investments at 30 September 1999 was not significantly different from the carrying value stated above.

19 CASH AND DEPOSITS	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Cash at bank and in hand	262.0	163.2	49.1	29.5
Term deposits	531.3	391.0	487.4	344.4
	793.3	554.2	536.5	373.9

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

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group 2000 £m	Restated Group 1999 £m	Company 2000 £m	Restated Company 1999 £m
Loans and overdrafts (see note 21)	33.8	56.4	24.4	20.5
Trade creditors	462.6	312.1	54.8	47.9
Amounts owed to subsidiary undertakings	–	–	1,694.3	565.2
Amounts owed to joint venture undertakings	0.1	0.4	0.1	0.2
Current tax	42.6	24.7	–	3.8
Social security and other taxes	16.6	12.2	4.9	3.7
Other creditors	88.5	51.8	21.2	13.3
Dividends	35.5	31.6	35.5	31.6
Accruals and deferred income	250.5	163.8	32.2	29.6
Amounts due under finance leases (see note 21)	10.3	10.4	–	–
Revenue received in advance	333.4	279.4	134.2	116.7
	1,273.9	942.8	2,001.6	832.5

21 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Convertible debt				
5.75% Subordinated Convertible Bonds due 2004	285.3	292.3	285.3	292.3
Other creditors				
Loans (see below)	263.0	32.1	263.0	30.4
Trade creditors	0.6	2.6	–	–
Other creditors	35.3	13.0	–	3.7
Accruals and deferred income	69.2	38.1	3.8	20.7
Amounts due under finance leases (see below)	42.0	58.6	–	–
	410.1	144.4	266.8	54.8
	695.4	436.7	552.1	347.1
Loans and overdrafts				
Bank loans	280.4	81.5	280.4	46.5
Other loan	0.1	0.3	–	–
Overdrafts	3.7	1.0	–	0.3
Unsecured loan notes	12.6	5.7	7.0	4.1
	296.8	88.5	287.4	50.9
Less: amounts falling due within one year	(33.8)	(56.4)	(24.4)	(20.5)
Amounts falling due after one year	263.0	32.1	263.0	30.4
Analysis of repayments				
Between one and two years	13.0	19.1	13.0	17.4
Between two and five years	250.0	13.0	250.0	13.0
	263.0	32.1	263.0	30.4

The £285.3m (1999: £292.3m) unsecured 5.75% Subordinated Convertible Bonds due 2004 are stated net of unamortised issue costs of £5.7m (1999: £7.7m).

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.

21 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 £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.

Of the bank loans £250.0m (1999: £nil) is a multi-currency unsecured revolving loan facility entered into on 21 March 2000 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. £30.4m (1999: £46.5m) is an unsecured sterling loan, with a floating interest rate, repayable on 21 April 2002. A £35.0m unsecured loan denominated in Greek drachma was repaid on 5 July 2000.

Of the £12.6m unsecured loan notes, £3.2m and £3.8m were issued by the Company following the acquisitions of Direct Holidays PLC and The Travelworld Group Limited in July 1998 and November 1998 respectively. Interest is payable on these loan notes at 35 basis points below the base lending rate of Barclays Bank plc. The interest rate on the unsecured loan notes of £1.6m, issued in connection with the acquisition of Winston Rees (World) Travel Limited by Going Places Leisure Travel Limited in 1994, is payable at bank base rate. The £4.0m of loan notes issued by UKLG Limited in connection with the acquisition of Sunway Travel (Coaching) Limited was interest free until 1 November 2000 from when interest is payable at 75 basis points below the base lending rate of Barclays Bank plc.

	Group 2000 £m	Group 1999 £m
Finance leases		
Total outstanding	52.3	69.0
Less: amounts falling due within one year	(10.3)	(10.4)
Amounts falling due after one year	42.0	58.6
Analysis of repayments		
Between one and two years	11.6	12.1
Between two and five years	30.4	37.4
After five years	–	9.1
	42.0	58.6

22 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's policies as regards derivatives and financial instruments are set out in the Operating and Financial Review on pages 17 and 18. 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 2000 and at 30 September 1999 was as follows:

	2000 £m	1999 £m
In one year or less	44.1	66.8
In more than one year but not more than two years	24.6	31.2
In more than two years but not more than five years	571.4	350.4
In more than five years	–	9.1
	640.1	457.5

Borrowing facilities The Group had no undrawn committed borrowing facilities at 30 September 2000 or at 30 September 1999.

22 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 2000 £m	Floating rate £m	Fixed rate £m	Interest free £m	Total 1999 £m	Floating rate £m	Fixed rate £m	Interest free £m
Sterling	636.2	345.1	291.0	0.1	452.8	152.5	300.0	0.3
Swedish krona	3.9	3.9	–	–	4.7	4.7	–	–
Total	640.1	349.0	291.0	0.1	457.5	157.2	300.0	0.3

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 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 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 21 to the accounts.

The weighted average period to maturity of the interest free loan is seven months (1999: eight months).

Financial assets

Currency	Total 2000 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m	Total 1999 £m	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m
The Group holds the following financial assets, other than short-term debtors such as trade debtors, accrued income and prepayments:								
Sterling	597.3	590.1	–	7.2	289.8	264.0	–	25.8
Spanish peseta	58.2	58.2	–	–	20.9	20.9	–	–
US dollar	49.4	43.3	6.1	–	77.5	73.5	4.0	–
Swedish krona	21.4	21.0	–	0.4	61.9	61.5	–	0.4
Norwegian krone	3.4	3.4	–	–	54.5	54.5	–	–
Danish krone	3.5	3.5	–	–	27.9	27.9	–	–
Euro	18.4	18.4	–	–	17.8	17.8	–	–
Other	64.6	62.8	–	1.8	42.3	42.2	–	0.1
Total	816.2	800.7	6.1	9.4	592.6	562.3	4.0	26.3

Financial assets comprise cash and deposits of £793.3m (1999: £554.2m), fixed asset investments other than associates and joint ventures of £9.4m (1999: £14.3m), current asset investments of £nil (1999: £12.0m) and other debtors due in more than one year of £13.5m (1999: £12.1m). Non-interest bearing assets, other than £3.7m (1999: £1.8m) of unlisted shares, are fully liquid and have no maturity period.

Interest on floating rate bank deposits is based on the relevant national inter-bank rate and is fixed in advance for periods normally up to three months. The weighted average rate and period for fixed rate deposits are 5.85% and 10 days (1999: 4.88% and 70 days).

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

22 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS continued	Total 2000 £m	US dollar £m	Other European currencies £m	Total 1999 £m	US dollar £m	Other European currencies £m
Functional currency						
Sterling	19.2	9.2	10.0	23.8	25.4	(1.6)

At 30 September 2000, 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 2000

	2000 Book value £m	2000 Fair value £m	1999 Book value £m	1999 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	44.1	44.1	66.8	66.8
Long-term borrowings	596.0	549.4	390.7	402.7
Financial assets	816.2	816.2	592.6	592.1
Derivative financial instruments held to manage the interest rate, fuel and currency profile				
Forward rate agreements and interest rate swaps	–	–	–	4.5
Forward fuel contracts	–	33.3	–	21.7
Forward foreign currency contracts and options	5.8	22.7	4.8	(25.7)

The fair values of forward rate agreements, interest rate swaps, fuel contracts, forward foreign currency contracts and sterling denominated long-term fixed rate debt with a carrying amount of £5,330.3m (1999: £3,432.6m) have been determined by reference to prices available from the markets on which the instruments are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

Unrecognised gains and losses on hedges 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:

	<---- 2000 ----		---->	<---- 1999 ----		---->
	Gains £m	Losses £m	Net £m	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges at 1 October 1999/1998	33.1	(32.6)	0.5	53.4	(28.6)	24.8
Gains and losses recognised in the year arising in previous years	(31.0)	32.6	1.6	(53.4)	28.0	(25.4)
Gains and losses arising in previous years not recognised in the year	2.1	–	2.1	–	(0.6)	(0.6)
Gains and losses not recognised in the year arising in the year	100.8	(46.9)	53.9	33.1	(32.0)	1.1
Unrecognised gains and losses at 30 September 2000/1999	102.9	(46.9)	56.0	33.1	(32.6)	0.5
Of which:						
Gains and losses expected to be recognised:						
in the year ending 30 September 2001/2000	95.9	(44.5)	51.4	31.0	(30.4)	0.6
after 30 September 2001/2000	7.0	(2.4)	4.6	2.1	(2.2)	(0.1)
	102.9	(46.9)	56.0	33.1	(32.6)	0.5

23 PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Deferred tax	62.9	55.7	–	4.4
Other provisions	50.5	44.4	–	–
	113.4	100.1	–	4.4

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
At 1 October	55.7	44.0	4.4	2.2
Charged during the year	6.0	12.1	(7.0)	2.0
Transferred to debtors (see note 16)	–	–	2.6	–
Acquired with subsidiary undertaking	1.7	0.4	–	–
Exchange differences	(0.5)	(1.0)	–	–
Advance corporation tax	–	0.2	–	0.2
At 30 September	62.9	55.7	–	4.4

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

	<—Provided—>		<—Potential—>	
	2000 £m	1999 £m	2000 £m	1999 £m
Group				
Accelerated capital allowances	51.1	52.6	60.0	61.5
Short-term timing differences	11.8	3.1	11.8	3.1
	62.9	55.7	71.8	64.6

	<—Provided—>		<—Potential—>	
	2000 £m	1999 £m	2000 £m	1999 £m
Company				
Accelerated capital allowances	(3.0)	4.0	(3.0)	4.0
Short-term timing differences	0.4	0.4	0.4	0.4
	(2.6)	4.4	(2.6)	4.4

Other provisions

	Total 2000 £m	Total 1999 £m	Pension provisions 2000 £m	Pension provisions 1999 £m	Aircraft maintenance provisions 2000 £m	Aircraft maintenance provisions 1999 £m
At 1 October	44.4	48.9	6.3	5.9	38.1	43.0
Provided during the year	28.2	23.9	1.2	0.6	27.0	23.3
Released unused	–	(4.0)	–	–	–	(4.0)
Reclassification	–	(3.5)	–	–	–	(3.5)
Acquired with subsidiary undertaking	0.7	–	0.7	–	–	–
	73.3	65.3	8.2	6.5	65.1	58.8
Utilised in the year	(22.5)	(20.6)	(0.1)	(0.1)	(22.4)	(20.5)
Exchange differences	(0.3)	(0.3)	(0.3)	(0.1)	–	(0.2)
At 30 September	50.5	44.4	7.8	6.3	42.7	38.1

The £3.5m aircraft maintenance provision reclassification in 1999 was to fixed assets to accord with Financial Reporting Standard 12 which was effective for the first time in that year.

The pension provisions are long term and the timing of their utilisation is uncertain.

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

notes to the accounts continued

24 SHARE CAPITAL

	2000 £m	1999 £m
Authorised		
736,275,000 (1999: 736,275,000) ordinary shares of 10p each	73.6	73.6

	2000 £m	1999 £m
Allotted, called up and fully paid		
491,229,693 (1999: 477,928,744) ordinary shares of 10p each	49.1	47.8

Allotments during the year During the year 902,430 ordinary shares were allotted under the terms of the Airtours share option scheme (1986) for an aggregate cash consideration of £1,199,100 and 25,307 ordinary shares were allotted to Airtours Quest Trustee Limited for an aggregate cash consideration of £81,800 for transfer on to those members of the Airtours SAYE schemes who exercised their options.

During September 2000, as part consideration for the acquisition of all the remaining share capital in FTi and the acquisition of 50% of Hotetur Club, S.L., 6,740,313 new ordinary shares and 5,632,899 new ordinary shares were issued to the respective vendors.

Contingent rights to the allotment of shares Under the terms of the Airtours SAYE scheme 1999 options over 7,452,823 ordinary shares of 10p each were granted to certain employees within the Group at £2.14 per share exercisable normally between 1 June 2003 and 30 November 2003 in the case of three-year options and 1 June 2005 and 30 November 2005 in the case of five-year options.

At 30 September 2000 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 1	Share option scheme (1986) Class 2	Share option scheme 1999	SAYE scheme
5 July 1991	38.56p	–	121,620	–	–
9 August 1993	124.64p	–	91,215	–	–
5 August 1994	149.50p	300,000	1,225,000	–	–
14 July 1995	135.67p	–	900,000	–	–
16 July 1995	136.33p	–	150,000	–	–
10 January 1997	194.70p	–	–	–	2,714,523
30 March 1999	395.00p	–	–	–	912,311
18 August 1999	421.50p	–	–	2,556,935	–
29 September 1999	392.00p	–	–	159,180	–
14 January 2000	402.00p	–	–	355,152	–
16 March 2000	214.00p	–	–	–	6,933,998
17 March 2000	290.50p	–	–	5,189,626	–
15 August 2000	290.50p	–	–	602,744	–

Options are normally exercisable in the following periods:

Share option scheme (1986) Class 1 — between three years and ten years following the date of grant.

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

25 RESERVES

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Group				
At 1 October 1999 (as previously reported)	92.5	3.2	–	103.8
Prior year adjustment (see note 11)	–	–	–	(40.0)
At 1 October 1999 (as restated)	92.5	3.2	–	63.8
Retained profit for the year	–	–	–	127.4
Goodwill written back to reserves (see note 14)	–	–	–	(14.5)
Premium on allotments during the year	15.0	–	18.0	–
Transfer in respect of QUEST	–	–	–	(0.1)
Exchange differences	–	–	–	(19.6)
At 30 September 2000	107.5	3.2	18.0	157.0

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m
Company				
At 1 October 1999 (as previously reported)	92.5	3.2	153.6	211.9
Prior year adjustment (see note 11)	–	–	–	(4.0)
At 1 October 1999 (as restated)	92.5	3.2	153.6	207.9
Retained loss for the year	–	–	–	(33.6)
Premium on allotments during the year	15.0	–	–	–
Transfer in respect of QUEST	–	–	–	(0.1)
At 30 September 2000	107.5	3.2	153.6	174.2

During the year ended 30 September 2000, the Company received £131,100 (1999: £6.1m) 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 £49,300 (1999: £1.6m) to the Company for the issue of these shares and the balance of £81,800 (1999: £4.5m) 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 £174.2m (1999: £207.9m as restated) 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 (1999: £418.3m).

26 NON-EQUITY MINORITY INTERESTS

	Group 2000
Profit and loss account	
Preference dividend	
Paid during year	12.4
Accrued at year end	1.5
Issue costs	
Amortised in year	0.9
	14.8

	Group 2000
Balance sheet	
Cumulative undated preference shares issued in year	210.0
Issue costs paid in year	(4.8)
Issue costs amortised in year	0.9
Dividend accrued at year end	1.5
At 30 September 2000	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 during the year. 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.

27 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2000 £m	Restated 1999 £m
Operating profit	51.0	89.7
Depreciation charges	74.1	57.9
Bond issue costs	–	1.4
Goodwill amortisation	13.3	1.1
Profit on sale of tangible fixed assets	–	(0.9)
Profit on sale of investments	(1.2)	(0.5)
Provision against fixed asset investments	5.2	–
Decrease in stocks	2.8	4.3
Increase in debtors	(88.7)	(114.8)
Increase in creditors	75.9	61.7
Increase/(decrease) in provisions	5.7	(0.7)
Cash impact of the termination of operations	(1.9)	–
Cash impact of fundamental reorganisation	(2.3)	–
Net cash inflow from operating activities	133.9	99.2

The cash flow effect of the subsidiary undertakings acquired during the year is set out in note 29 to the accounts.

28 ANALYSIS OF NET FUNDS

	At 1 October 1999 £m	Cash inflow/ (outflow) £m	Acquisitions £m	Other non-cash changes £m	Exchange movements £m	At 30 September 2000 £m
Cash at bank and in hand	163.2	130.5	–	–	(31.7)	262.0
Term deposits	391.0	140.3	–	–	–	531.3
Cash and deposits	554.2	270.8	–	–	(31.7)	793.3
Overdrafts	(1.0)	(2.7)	–	–	–	(3.7)
Debt due within one year	(55.4)	87.4	(35.0)	(26.1)	(1.0)	(30.1)
Debt due after one year	(332.1)	(250.0)		28.1	–	(554.0)
Issue costs of Convertible Bonds due 2004	7.7	–	–	(2.0)	–	5.7
Finance leases	(69.0)	17.0	(0.5)	–	0.2	(52.3)
Current asset investments	12.0	(13.2)	–	1.2	–	–
	116.4	109.3	(35.5)	1.2	(32.5)	158.9

29 EFFECTS OF ACQUISITIONS AND CLOSURES

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

	TSI £m	Hoteles Don Pedro £m	FTi £m	Other acquisitions £m	Discontinued operations £m	Total £m
Cash inflow/(outflow) from operating activities	11.2	9.9	(2.3)	3.1	(20.9)	1.0
Returns on investments and servicing of finance	0.5	0.1	–	0.5	0.5	1.6
Tax	2.7	–	0.5	(1.9)	–	1.3
Capital expenditure (net) and financial investment	(4.5)	(1.6)	(0.1)	(0.4)	0.4	(6.2)
Financing	(11.9)	–	–	(0.5)	–	(12.4)
(Decrease)/increase in cash in the period	(2.0)	8.4	(1.9)	0.8	(20.0)	(14.7)

notes to the accounts continued

30 FINANCIAL COMMITMENTS

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Capital commitments are as follows:				
Contracted but not provided in these accounts	15.2	29.8	0.2	23.3

In addition to those noted above, the Group's share of the capital commitments of its joint venture undertakings at 30 September 2000 was £nil. At 30 September 1999 the Group's share of the capital commitments of Costa and FTi were £125.4m and £nil respectively.

	Land and buildings 2000 £m	Land and buildings 1999 £m	Aircraft and aircraft spares 2000 £m	Aircraft and aircraft spares 1999 £m	Other 2000 £m	Other 1999 £m
Annual commitments under non-cancellable operating leases are as follows:						
Group						
Expiring in one year or less	2.9	5.6	17.4	8.3	1.9	3.2
Expiring between one and five years	12.9	12.5	53.6	44.8	8.4	9.6
Expiring in five years or more	40.1	24.7	78.7	39.0	5.9	5.8
	55.9	42.8	149.7	92.1	16.2	18.6
Company						
Expiring in one year or less	–	–	–	–	1.2	–
Expiring between one and five years	–	0.2	–	–	5.2	9.2
Expiring in five years or more	0.4	0.4	–	–	5.6	5.8
	0.4	0.6	–	–	12.0	15.0

31 PENSIONS

Employees of the Company and various of its UK subsidiary undertakings participate in the Company's defined contribution pension scheme. The total pension charge for the year amounted to £4.7m (1999: £4.3m). No amounts were outstanding at the year end.

The Group also operates a number of defined benefit pension schemes, principally in Sweden and Norway. The total pension charge for the year amounted to £6.3m (1999: £5.3m). No amounts were outstanding at the year end. In Sweden the pension costs are accrued based on amounts prescribed by the state and in Norway pension costs are accrued based on amounts prescribed by insurance companies with whom the obligation to provide pension benefits is contracted.

32 CONTINGENT LIABILITIES AND GUARANTEES

At 30 September 2000 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 £552.3m (1999: £485.4m). The Group enters into foreign exchange contracts to hedge future foreign currency requirements. No liabilities are expected to arise on these contracts. In addition, the Company provides guarantees to certain of its subsidiary undertakings. No liabilities are expected to arise under these guarantees.

Not included in the above amounts are contingent liabilities of £nil (1999: £105.2m) under counter indemnities given to bankers of the Group's joint venture undertakings.

In September 1999 Airtours plc entered into an outsourcing agreement with Electronic Data Systems Limited (EDS). Under that outsourcing agreement Airtours outsourced responsibility for certain IT operational and development services for Airtours and various of its business units to EDS.

On 20 June 2000 Airtours terminated that outsourcing agreement. Airtours has commenced an action against EDS for damages for breach of contract. EDS has indicated that it intends to defend that claim and, in turn, has counter claimed for damages for unlawful breach of the outsourcing agreement by Airtours. Airtours has received clear and strong legal advice that it lawfully terminated the outsourcing agreement. The Board believe, having taken specific legal advice, that the likelihood of any significant liabilities accruing to the Group from the defence and counter claim by EDS is remote.

33 RELATED PARTY TRANSACTIONS

During the year Airtours Holidays and Scandinavian Leisure Group purchased hotel accommodation amounting to £2.1m (1999: £0.9m) from Tenerife Sol, a joint venture undertaking. At 30 September 2000 the outstanding balances payable to Tenerife Sol amounted to £0.1m (1999: £0.2m). In addition, Airtours Holidays purchased hotel accommodation amounting to £1.1m (1999: £0.2m) from FTi, during the period FTi was a joint venture undertaking. At 3 September 2000 no amount was outstanding (30 September 1999: £0.2m). Airtours Holidays also purchased cabin accommodation and other cruise services from Carnival Cruises, a company in which Mr M M Arison, who is a Non-Executive Director in the Company, is interested by virtue of his shareholding in Carnival Corporation, the parent undertaking of Carnival Cruises, amounting to £2.5m (1999: £3.1m) during the year. At 30 September 2000 the outstanding amount payable to Carnival amounted to £0.4m (1999: £0.6m).

During the year ending 30 September 1999 Airtours Holidays purchased cabin accommodation and other cruise services from Costa Cruises, a subsidiary undertaking of Il Ponte SpA, a joint venture undertaking until 28 September 2000, amounting to £30,000. At 30 September 1999 £5,000 was outstanding payable to Costa.

During the year Going Places sold holidays operated by Costa and Carnival amounting to £0.3m (1999: £0.3m) and £0.2m (1999: £0.1m) respectively. At 30 September 2000 the outstanding balances payable to Costa amounted to £27,000 (1999: £37,000). No amounts were outstanding to Carnival (1999: £nil).

Maretours NV, an associated undertaking of WELG Holding NV sold holidays operated by Sunair amounting to £4.5m (1999: £6.7m). At 30 September 2000 the outstanding amount due from Maretours was £0.3m (1999: £0.2m).

Lake Eve Development, previously a joint venture undertaking, became a wholly-owned subsidiary undertaking on 1 October 1999. In the year ended 30 September 1999 an amount of £0.6m became due to subsidiaries of the Company from Lake Eve Development in respect of services supplied by certain employees of the Group. At 30 September 1999 no amount was outstanding to the Group. During the year ended 30 September 1999 the Group loaned £7.6m to Lake Eve. At the date of the acquisition of Lake Eve, £9.1m was outstanding from Lake Eve (30 September 1999: £9.1m).

During the year ended 30 September 1999 an amount of £9.0m was loaned to, and subsequently repaid in that financial year by Il Ponte SpA. No loans were outstanding at the date of disposal of Il Ponte SpA or at 30 September 1999. At the date of disposal £0.3m (30 September 1999: £0.4m) was outstanding in respect of the financing of the acquisition of Costa. During the year the Group loaned £77.3m (1999: £11.8m) to FTi. At the date of the acquisition of FTi, £89.9m was outstanding from FTi (30 September 1999: £14.0m).

During September 2000 Berge & Meer, an associated undertaking of FTi, sold holidays operated by FTi amounting to £0.2m. At 30 September 2000 an amount of £1.1m was outstanding from Berge & Meer.

During the year Scandinavian Leisure Group purchased flight capacity amounting to £5.0m (1999: £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 the 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 the year end, £0.1m was outstanding (1999: £nil). Premiair also incurred operational costs from Braathens amounting to £5.0m (1999: £1.0m) of which £0.1m (1999: £0.1m) was outstanding at the year end. In addition, Air Belgium incurred costs of £2.9m during the year ended 30 September 1999 in relation to engine maintenance carried out by Braathens. No such costs were incurred during the year ended 30 September 2000 and no amounts were outstanding at either year end.

Fly FTi, the Group's German charter airline was recharged operational costs of £14.9m (1999: £7.2m) by Group companies during the period FTi was a joint venture undertaking. At 3 September 2000 an amount of £1.4m (30 September 1999: £2.5m) was outstanding from Fly FTi.

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

34 PRINCIPAL SUBSIDIARY AND JOINT VENTURE UNDERTAKINGS

At 30 September 2000 the Group's principal subsidiary and joint venture 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	
	Panorama Holiday Group Limited	England		100
	Sunway Travel (Coaching) Limited	England		100
	Leger Holidays Limited	England		100
	Jetset Europe plc	England		100
	Manos (UK) Limited	England		100
	North American Leisure Group Inc.	Canada		100
	Sunquest Holidays Inc.	USA		100
	SunTrips Inc.	USA		100
	V E Holdings Inc.	USA		100
	Scandinavian Leisure Group AB	Sweden		100
	Vingresor AB	Sweden		100
	Always AB	Sweden		100
	Ving Norge AS	Norway		100
	Saga Solreiser AS	Norway		100
	Ving A/S	Denmark		100
	Spies A/S	Denmark		100
	Tjaereborg Reiser A/S	Denmark		100
	Globetrotter Holding A/S	Denmark		100
	Oy SLG Holdings AB	Finland		100
	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

notes to the accounts continued

34 PRINCIPAL SUBSIDIARY AND JOINT VENTURE 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
	FTi Flugesellschaft mbH	Germany		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
	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
Vacation ownership	Anfinpan SL	Spain		100
	Lake Eve Development	USA		100
Insurance companies	White Horse Insurance Limited	Guernsey		100
	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	
	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
	WELG Holding NV	Belgium		100
	Sun International (UK) Limited	England		100
	UKLG Limited	England	100	
	NALG Holdings	Ireland		100
	AB9807 Beteiligungsverwaltungs GmbH	Germany		100
	Parkway SA	Luxembourg		100

auditors' report

To the shareholders of Airtours plc We have audited the accounts on pages 30 to 61 which have been prepared under the historical cost convention and the accounting policies set out on pages 30 and 31. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the Directors which form part of the remuneration report on pages 25 to 29.

Respective responsibilities of Directors and Auditors The Directors are responsible for preparing the Annual Report including, as described on page 23, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the corporate governance statement on page 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

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

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

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

Opinion In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30 September 2000 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
Bank House
9 Charlotte Street
Manchester M1 4EU
21 November 2000

five year review

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Profit and loss account					
Group turnover	3,949.0	3,309.3	2,753.4	2,235.6	1,776.2
Profit on ordinary activities before tax	211.4	125.9	125.7	117.2	87.1
Tax on profit on ordinary activities	25.0	32.3	31.6	29.2	21.7
Profit for the financial year	171.3	93.8	93.8	87.8	65.2
Dividends	43.9	39.4	36.2	31.1	24.9
Profit retained	127.4	54.4	57.6	56.7	40.3
Balance sheet					
Goodwill	557.4	36.9	–	–	–
Tangible fixed assets	513.5	417.8	310.7	261.4	253.1
Investments	32.7	116.9	82.7	63.0	16.2
Cash and deposits	793.3	554.2	364.2	406.6	425.6
Stocks	17.2	11.4	17.0	6.4	6.8
Debtors	712.2	550.5	403.5	331.7	235.9
Creditors	1,969.3	1,379.5	937.7	747.2	669.6
Provisions for liabilities and charges	113.4	100.1	92.9	81.2	63.4
Net assets	543.6	208.1	147.5	240.7	204.6
Statistics					
Basic earnings per share	35.98p	19.74p	21.14p	20.62p	16.49p
Diluted earnings per share	34.10p	19.53p	20.21p	19.12p	15.41p
Dividend per share	9.00p	8.25p	7.50p	6.67p	5.33p
Net assets per share	110.69p	43.54p	31.07p	56.24p	50.24p
Ratios					
Dividend cover	3.90	2.38	2.59	2.82	2.62
Share data					
Number of shares in issue – period end	491.2m	477.9m	474.7m	428.0m	407.2m
– average	476.4m	475.4m	439.3m	413.5m	376.0m
Diluted number of shares	546.6m	480.5m	464.4m	458.9m	423.2m
Share price					
High	430.00p	544.50p	541.00p	413.33p	203.33p
Low	202.00p	287.50p	282.50p	197.83p	103.00p
Average	308.63p	435.67p	429.38p	315.49p	153.08p

The figures for the years 1996 to 1999 have been restated to take account of the prior year adjustment referred to in note 11 to the accounts.

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

Diluted earnings per share before 1999 has also been restated to take account of Financial Reporting Standard 14.

shareholder information

ANALYSIS OF SHAREHOLDERS

At 30 September 2000 there were 8,412 shareholders registered compared with 6,295 at 30 September 1999.

Category	Number of holders	Shares held
Individuals	7,500	71,160,809
Carnival (UK) Limited	1	123,344,501
Life/Insurance funds	63	66,886,512
Pension funds	261	97,791,807
Unit trusts	104	36,259,195
Investment trusts	23	5,530,621
Overseas funds	295	70,257,493
Other	165	19,998,755
	8,412	491,229,693

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 addition, shareholders in the UK are entitled to a discount of 12.5% on the list price of Vacation Ownership weeks in Florida and Gran Canaria.

All applications or enquiries for discounts on Vacation Ownership weeks should be made on telephone number 0161 232 2780.

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

Low-cost share dealing service This service offered by Hoare Govett allows shareholders to buy and sell the Company's shares in a simple and low-cost manner. For further details contact Hoare Govett Limited, 250 Bishopsgate, London EC2M 4AA or for a brochure telephone 0207 678 8300.

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

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

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FINANCIAL CALENDAR

Annual General Meeting	18 January 2001
Transfer books close	19 January 2001
First quarter results announced	*February 2001*
Final dividend payable	16 February 2001
Interim results announced	May 2001
Interim dividend payable	June 2001
Third quarter results announced	August 2001
Final results announced	November 2001

AIRTOURS PLC

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