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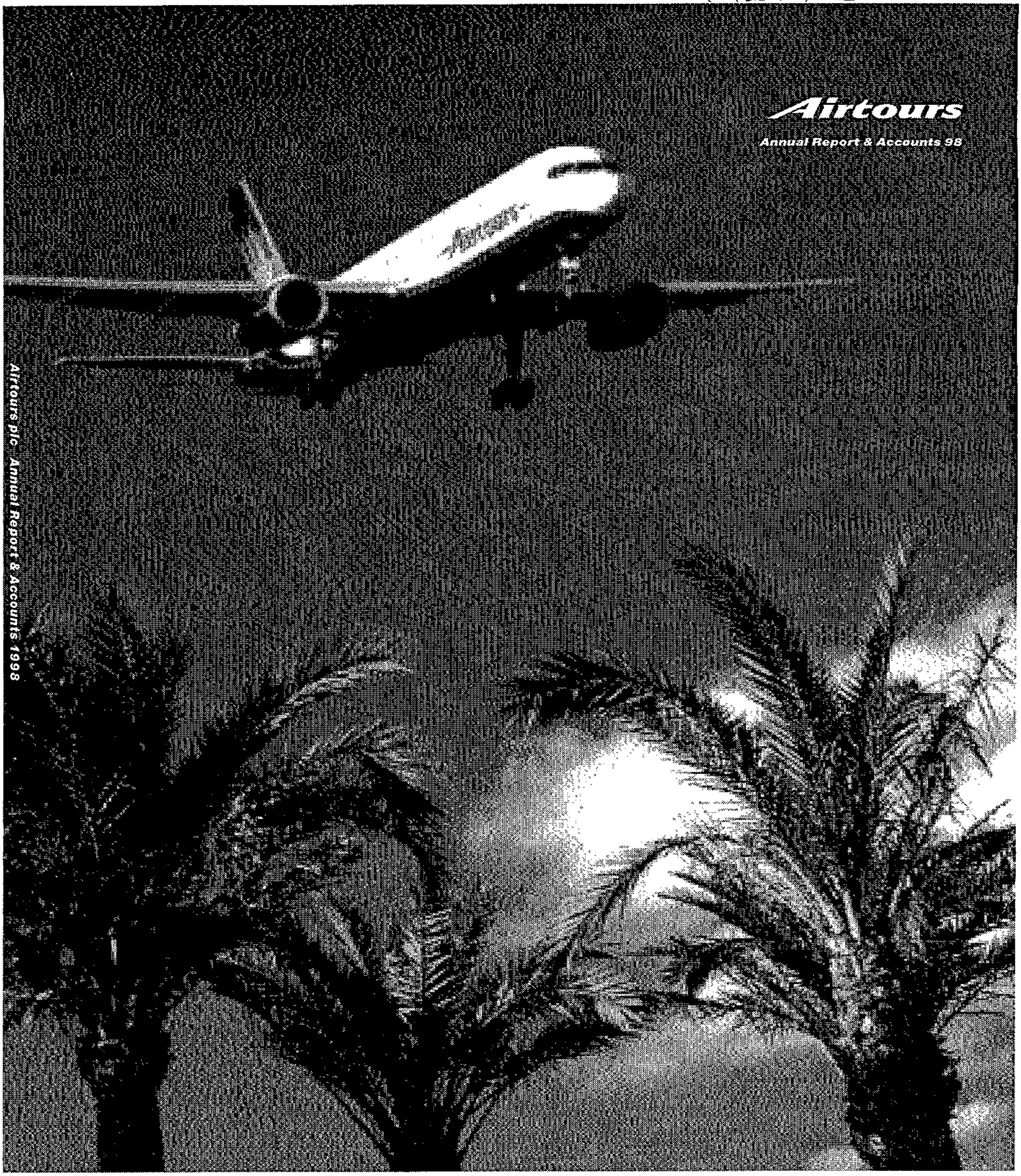
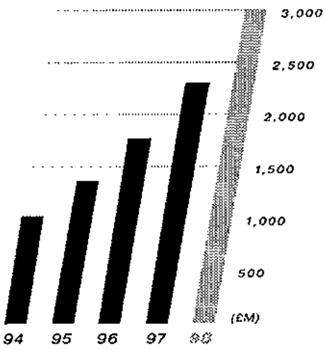
Airtours

Annual Report & Accounts 98

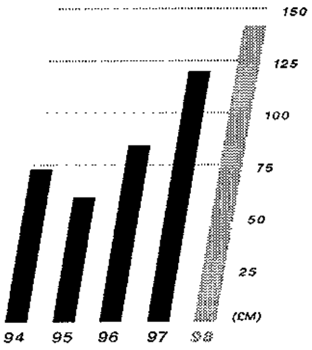


Airtours plc Annual Report & Accounts 1998

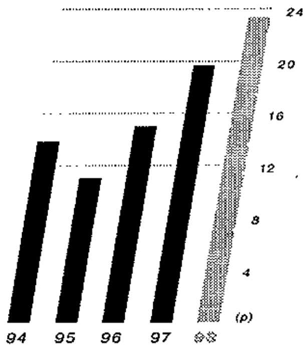
Airtours is a multinational group with operations in 17 countries on three continents, and over 20,000 employees. As we travel towards the year 2000, we are already the world's number one provider of air inclusive holidays, with over eight million passengers last year. Our current asset base includes 36 aircraft flying our passengers around the world, 26 resort properties, a fleet of 11 cruise ships, including associates, sailing the Mediterranean and Caribbean Seas and 825 retail shops selling an innovative range of travel services.



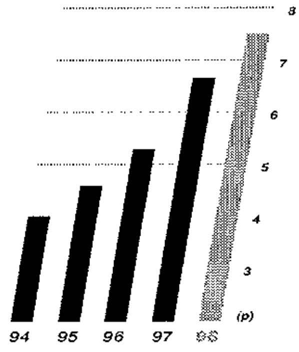
Group turnover



Profit before tax



Fully diluted earnings per share

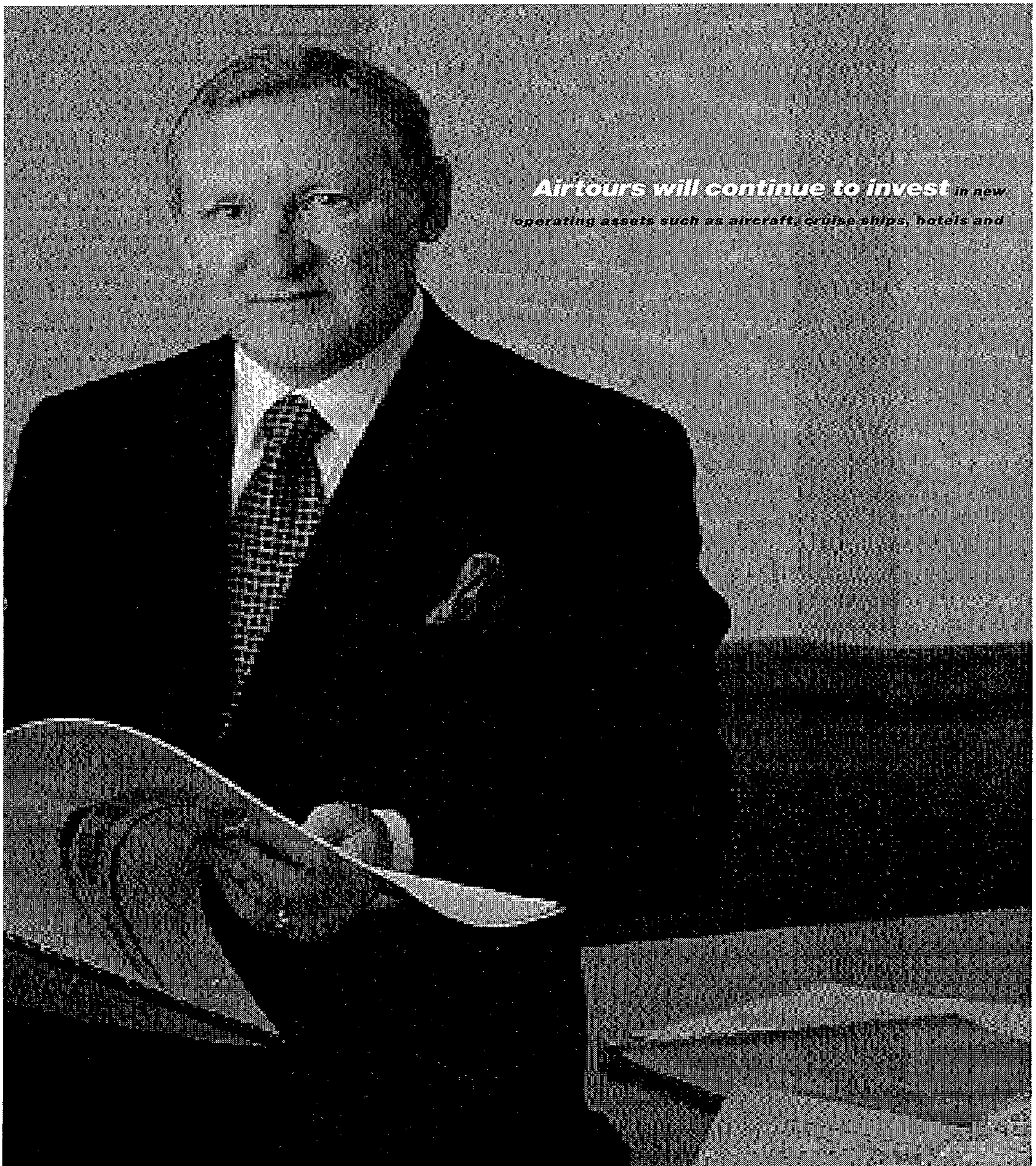


Dividend per share

	1998	1997	% increase
Group turnover* (£m)	**3,054.9**	2,309.4	32.3
Profit before tax (£m)	**140.3**	120.3	16.6
Earnings per ordinary share, basic (p)	**24.08**	21.27	13.2
Earnings per ordinary share, fully diluted (p)	**22.98**	19.68	16.8
Dividend per ordinary share (p)	**7.50**	6.67	12.4

* Group and share of joint ventures' turnover

Airtours will continue to invest in new operating assets such as aircraft, cruise ships, hotels and



and existing markets to build sustainable passenger volumes. This will support additional investment in vacation ownership resorts producing increased and higher quality earnings. *David Crossland, Chairman*

Results In the 12 months to 30th September 1998, Airtours had another highly successful year with both profit before tax and earnings per share increasing by 17%. Profits increased by £20.0m to £140.3m and fully diluted earnings per share increased by 3.30p to 22.98p. This increase was driven by strong performances in our businesses in the UK and from our joint venture Costa Cruises.

Dividend The Board is recommending a final dividend of 6.00p per ordinary share which, together with the interim dividend of 1.50p, gives a total dividend of 7.50p for the year: an increase of 12% over the previous year.

Delivering strategy Airtours is the world's largest provider of air inclusive holidays and with each expansion of our tour operating businesses we create new opportunities to invest in aviation, accommodation and distribution activities. These investments are made within strictly defined limits so that the capacity of our tour operators can be reduced whilst maintaining the very high load factors and levels of utilisation that we demand from our assets. Our long term strategy of developing a vertically integrated and geographically diversified business with a broad portfolio of products and brands, coupled with high asset utilisation, has again enabled the Group to produce double-digit earnings growth despite the problems of over capacity in the Scandinavian market.

Over the past financial year Airtours completed acquisitions and started new businesses which extended our geographic coverage to a further eight countries including Germany, the largest tour operating market in the world. We also continued to invest in profit generating physical assets, including a fourth cruise ship and placed orders for four new aircraft.

Convertible bond On 24th November 1998 Airtours announced the offer of £250m subordinated convertible bonds to our shareholders and to new investors throughout Europe and the USA. In the last four financial years the Group has invested some £402m in acquiring businesses in new and existing markets. The Directors intend to use the proceeds of the issue for the general corporate purposes of Airtours and to permit the Group to continue to enlarge its operations as suitable acquisition opportunities arise.

Our staff The Airtours Group now employs over 20,000 people worldwide, each one makes their own contribution to the success of the Group and I would like to take this opportunity to extend a personal thank you to each of them.

Prospects Over the past 12 months Airtours has extended its geographic presence and consolidated its position in a number of existing markets: we have again delivered the growth we promised. Geographic expansion is fundamental to our strategy and, unlike any other major British tour operator, over 50% of our holidays are now sold outside the UK.

We remain convinced that the key to profitability in the tour operating industry remains the matching of supply and demand in the market place. It is with this in mind that we shall continue to monitor each of the markets in which we operate and where necessary adjust our capacity accordingly. Given the wide range and geographic diversity of our businesses, the skills and experience of our various management teams and a successful conclusion to our Convertible Bond offer, I believe Airtours will be uniquely placed within the world's largest industry to take full advantage of opportunities for growth as they arise.

A strong management team aware of and responding

Operating performance Total turnover including our share of the turnover of our joint ventures increased during the year by 32% to £3,054.9m of which 49% was generated in the UK and 51% from our overseas businesses. With a profit before tax of £140.3m, we have once again achieved record profits and record earnings per share.

Continued growth During the year we grew our earnings per share by 17% due largely to the strategic investments made in recent years. This year we again fuelled the cycle of growth by completing £209.3m of acquisitions, investing in £87.6m of fixed assets and by further developing our businesses, in both existing and new markets.

When considering acquisitions we focus upon businesses that offer us new products, markets or skills. Sun International brought us not only tour operations in Belgium, Holland and France but, also UK market leadership in short breaks through Bridge Travel Group and Cresta Holidays. We entered the German market by acquiring a 29% interest in FTi, with an option to acquire the outstanding shares in 2002. FTi is one of Germany's major tour operators, in the largest tour operating market in the world. The acquisition of the Panorama Holiday Group gave us a substantial presence in Ireland whilst Direct Holidays provides us with a significant position in the growing UK market of holidays sold directly to customers by the tour operator.

After completing the reorganisation of our North American businesses to both improve efficiency and reduce the cost base, we recommenced our acquisition programme. We extended our coverage in North America with the purchase of Vacation Express, one of the largest tour operators in south-eastern USA.

Investment programme Over the past 12 months Airtours has continued to build its portfolio of vertically integrated businesses. To ensure the widest possible distribution of our tour operator products, we have expanded our shop networks in the UK and Scandinavia and opened shops in Poland to support our new tour operation. We have invested in a new and more efficient booking system for Going Places and invested in improved reservations systems for our tour operators in North America, which can now

to global opportunities, is an essential element of a successful business. *Harry Coe, Group Managing Director*

more easily interface with third party travel agents. We have made substantial investments in our off high street distribution via our telephone sales operations in the UK and are now selling an increasing number of our holidays in Scandinavia via the internet.

We continued to invest in our aircraft fleet and the acquisition of Sun International added Air Belgium to the Group's Aviation interests. Air Belgium was quickly integrated into the Aviation Division realising immediate cost efficiencies. Both Airtours International and Premiair once again led the world's airline industry in terms of utilisation and load factors.

Operating our own hotels and cruise ships allows us to differentiate our product at the most influential point: the holiday destination. The quality and attractiveness of our accommodation help to drive up the volume of profitable full priced brochure holidays we sell and this year, we completed the rebranding of Sunwing Hotels. For those customers who prefer to purchase their own accommodation Airtours made a further investment in vacation ownership with the purchase of Bahia Feliz in Gran Canaria.

During the year we acquired a fourth cruise ship, MS *Sunbird* to develop further our interest in this rapidly growing market. The MS *Sunbird* will be branded as a superior, four-star vessel and commences cruising in May 1999. Costa Cruises our joint venture, ordered its eighth ship, for delivery in summer 2000.

Business overview Airtours made a number of acquisitions in the UK during the past 12 months, which has been a period of considerable consolidation within the UK tour operating and travel retail markets. We had an excellent year with our existing tour operating businesses growing their profits by some 21% to £80.5m. The businesses of Bridge Travel Group, Cresta Holidays and Direct Holidays contributed a further £7.6m of profits whilst our retail businesses increased their profit by £1.9m to £15.9m.

In Scandinavia profits of £17.5m were £21.7m less than last year as a result of over-capacity in the market for summer 1998, and certain one-off costs relating to Premiair which arose in the first half of the year. Market capacity for summer 1999 will be at levels similar to those of summer 1997 and the problems experienced in Premiair were substantially resolved by the outsourcing of the engineering function to FLS. In Finland, we again invested in our business in order to grow the volume of passengers with the aim of creating a profitable operation and during the year we grew the number of passengers carried by 64%. Another major development was our entry into Poland, currently a small but growing market of approximately 200,000 passengers which is anticipated to grow by 30% during next year. Whilst we expect to continue to make losses in Poland in the short term, we have already gained an 11% market share and established our presence in a country of 40 million inhabitants with a growing propensity to take charter holidays.

Our businesses in Belgium, Holland and France, which are operated by the newly formed West European Leisure Group (WELG), made a loss of £0.5m as anticipated at the time of acquisition. We intend to develop our market positions in these countries, where we currently do not have the market strength enjoyed by our other businesses.

Germany is the largest tour operating market in the world. Major consolidation of the market is now taking place and our entry into the market via our interest in FTi is proving timely. As expected, FTi generated a loss of £1.0m this year, although we envisage improvements next year with the introduction of its new airline, Fly FTi.

In North America, there are distinct differences between the Canadian and US markets. The Canadian market is very like the European market being biased towards charter holidays and dominated by three large companies of which we are one. Conversely in the US there are currently no national package tour operators but a large number of smaller operators. Despite undergoing major reorganisation, we managed to reduce our losses in North America by £5.5m to £1.1m and we are now better placed to take advantage of the significant opportunities to expand our US business.

Our share of the profits of Costa Cruises for the year amounted to £21.0m which compares to £5.1m last year, where we only included the results for the post-acquisition summer period as adjusted for certain reorganisation provisions. This year's record profits in Costa highlight the strength of the European cruise market and reflect increased operating efficiency and high occupancy rates in the Costa fleet. During the year we incurred a loss of £1.8m in respect of our joint venture at Oasis Lakes, Florida, where we are developing a Vacation Ownership Resort. The majority of the losses were incurred as a result of the write-off of pre-construction costs. Our share of the profits in Tenerife Sol, our hotel joint venture, was £2.2m compared to £2.3m in 1997.

Bookings In the UK, bookings for winter 1998/99 are currently 6% ahead of the previous year. We have sold a higher number of full priced brochure holidays compared to last year together with an increase in the average brochure selling price for our products. To date the overall number of bookings taken in the UK for next summer is 5% ahead of the position achieved at the same time last year. We will continue to manage our charter capacity to ensure a good balance of supply and demand.

In Scandinavia, bookings for winter 1998/99 are running 17% ahead of the previous year and we now have less holidays to sell compared to this time last year. We have also achieved an improved mix of full priced brochure sales to discounted sales together with increased margins on bookings to date. Following the recent launch of the summer 1999 brochures, bookings are 61% ahead of last year with industry capacity showing a marked reduction over the previous year. In our West European Leisure Group, bookings for winter 1998/99 are 17% ahead of last year.

In North America, bookings for winter 1998/99 are currently in line with last year in accordance with our expectations following the rationalisation of our product base, and we have achieved improved margins on the bookings taken to date.

Bookings in Costa Cruises are 4% ahead of last year together with increased sales prices on the bookings taken to date. In FTi, bookings for winter 1998/99 are 60% above last year reflecting the expansion of their charter programmes.

Sales in our Vacation Ownership operations are progressing satisfactorily. We continue to see a particularly strong performance from our vacation ownership development in Gran Canaria, profits from which will be recognised for the first time in our 1998/99 first quarter results.

Outlook Airtours intends to continue to add to its businesses and assets and we are committed to working them as hard as possible to generate earnings and help us build further sustainable and profitable passenger volumes. We look forward to another rewarding year.

On the Move. *Our* ***tour operators*** *offer a wide range of products and brands appealing to every type of customer.*

22 tour operators located in

Fully Booked. *People buy our holidays in shops, on the phone or via the internet. Good* ***distribution*** *is key to selling the right products, the right way, in each market.*

17 countries sell to 8.5 million

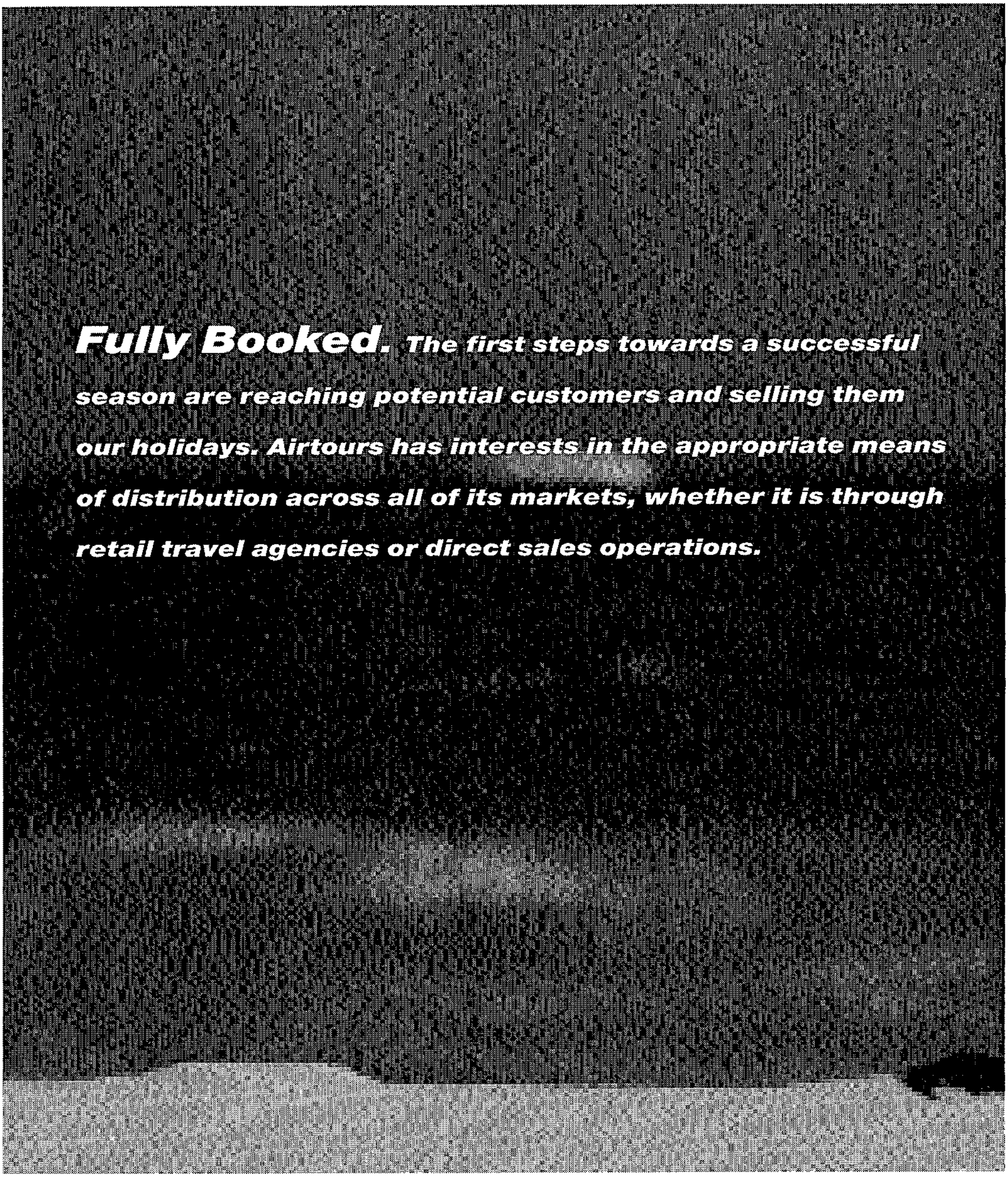
Flying High. *Running our own fleet of* ***aircraft*** *adds value for the passengers and the business. Operating our own aircraft allows us to control the schedules, service and quality.*

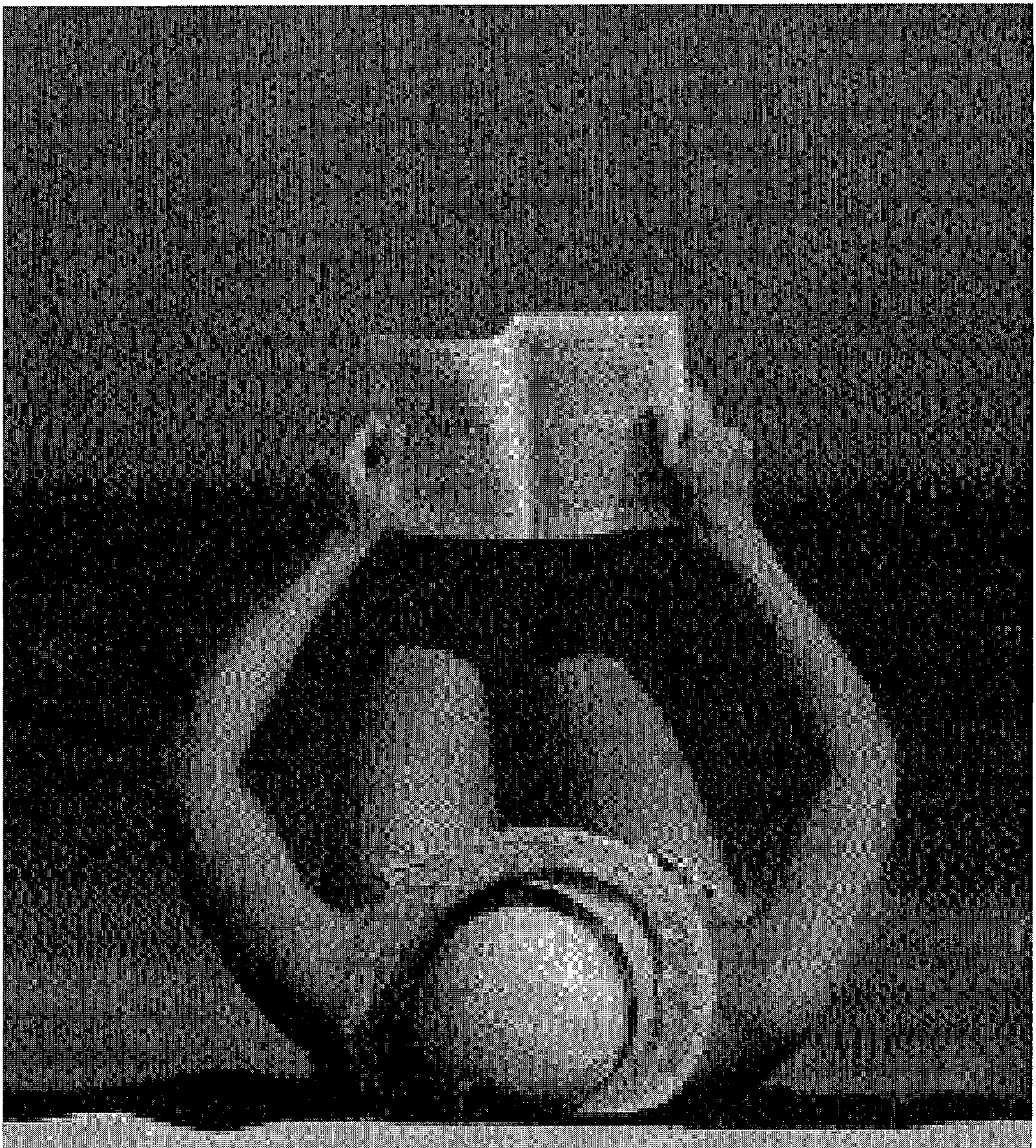
people who travel to and stay

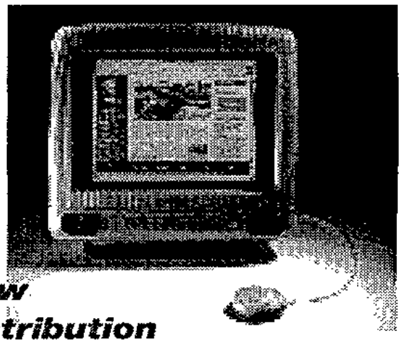
Here to Stay. *The destination is the heart of the holiday. Quality* ***accommodation*** *– our own or our suppliers' – is key to satisfied customers and a profitable business.*

in over 300 resorts worldwide.

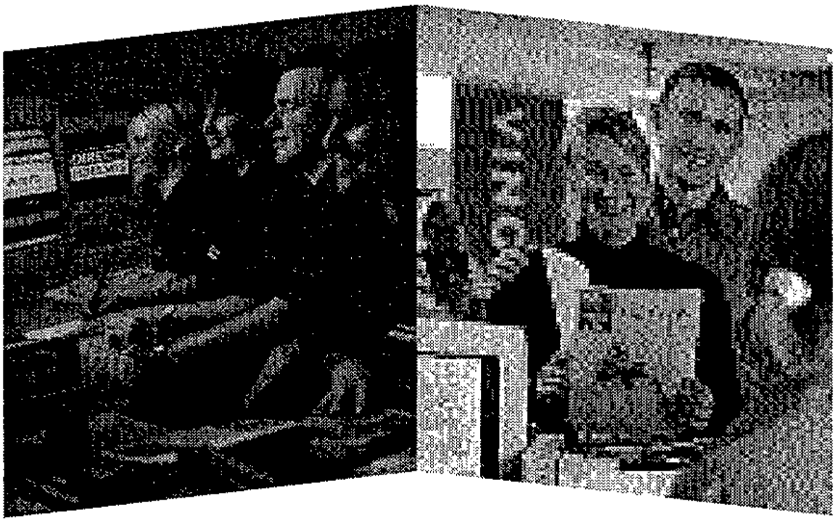
Fully Booked. *The first steps towards a successful season are reaching potential customers and selling them our holidays. Airtours has interests in the appropriate means of distribution across all of its markets, whether it is through retail travel agencies or direct sales operations.*







New distribution methods are here to stay. Our Scandinavian Leisure Group is already selling holidays via the internet. In a few years' time we expect an increasing proportion of our holidays to be sold via new methods of distribution.

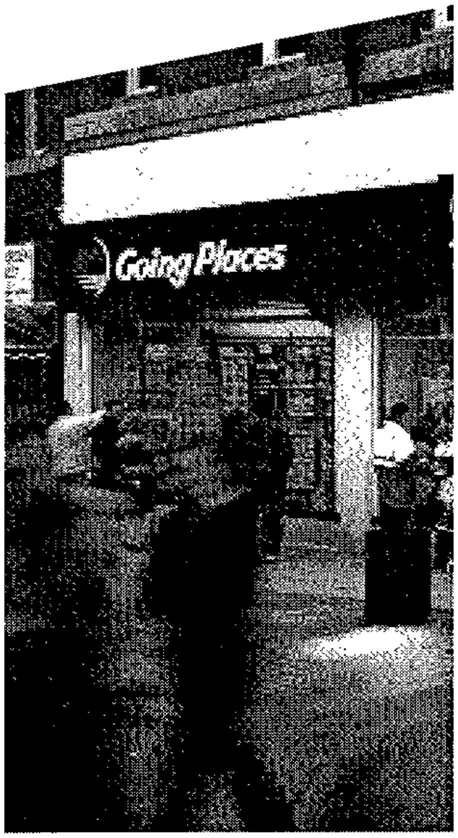


Buying a holiday directly

from the tour operator, rather than through travel agents, is a fast-growing trend in the UK for air-inclusive tours. The acquisition of Direct Holidays in July 1998 makes Airtours a major player in this market. The main philosophy, just as in the direct banking or insurance sectors, is to develop a close relationship with the customer. We achieve this through a network of call centres covering the UK. Becoming part of Airtours has strengthened Direct Holidays by enabling them to introduce several popular new destinations and, for summer 1999, four new departure airports.

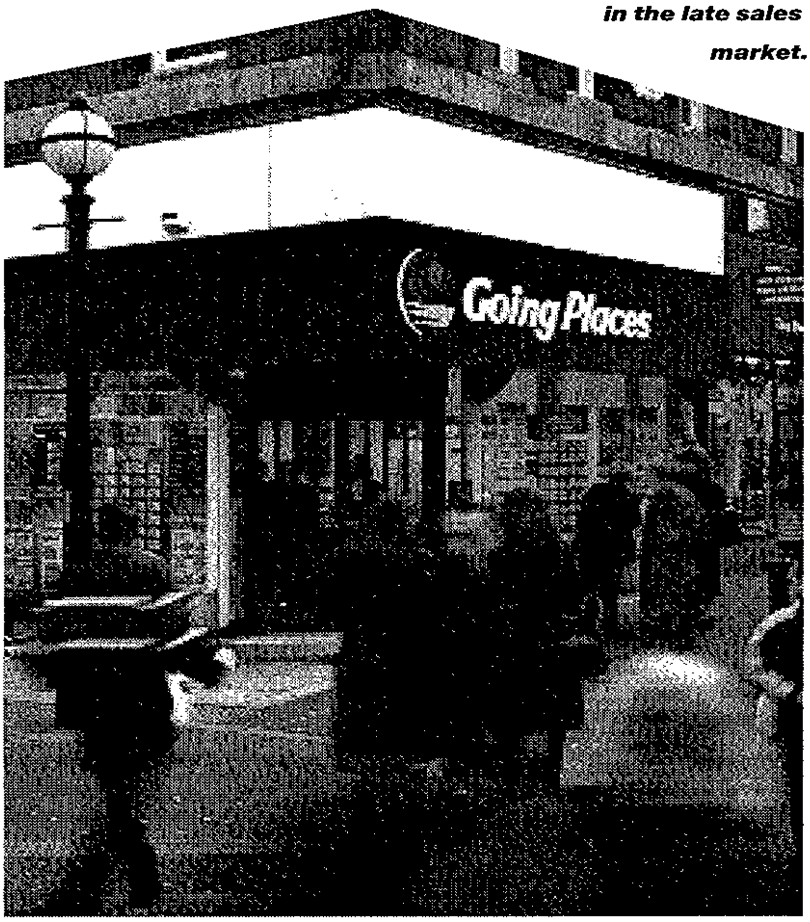
Sales methods differ

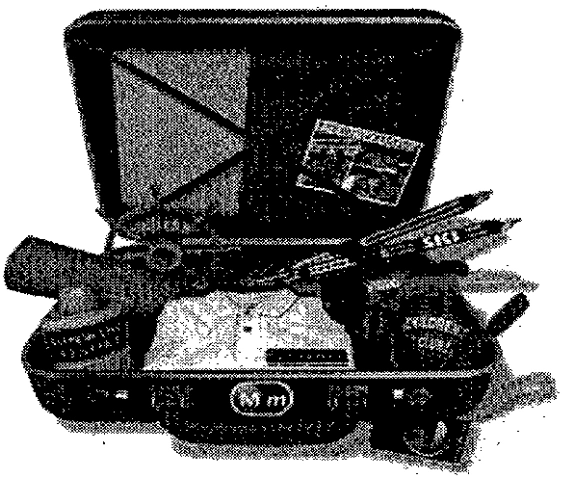
between the various countries in which we operate and Airtours adapts its approach to distribution to meet the specific local requirements. In Scandinavia, for example, 70% of our holidays are sold directly to the customer via the outlets of our own operators, Ving and Spies – the complete opposite of the UK market. Even so, we also have a substantial presence in 800 travel agencies across the Nordic region. In Germany, while FTi owns only two retail outlets, it does have its own direct sales function, travel agency franchising and sells through a further 13,000 independent outlets in Germany, Austria and Switzerland. In North America, a market where major distribution networks for leisure travel are not controlled by tour operators, our products are sold by independent third party travel agents.



Airtours owns Going Places,

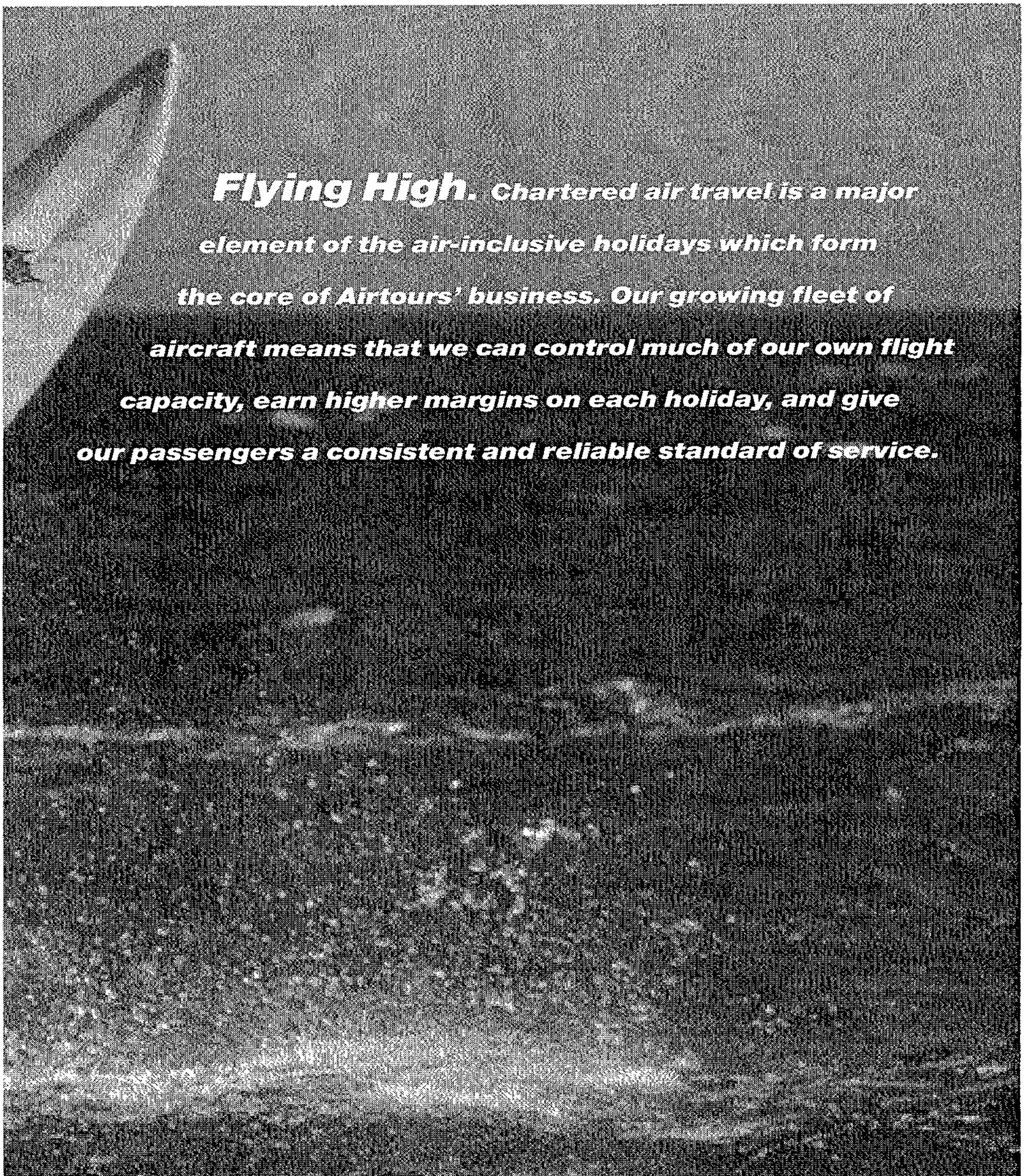
our major retail presence in the UK. Our chain of travel agents sells a wide range of holidays from over 700 high street travel agencies positioned throughout the country. In a market where 80% of holidays are currently bought through travel agents, they represent a key distribution channel for the Group's products in the UK. Our UK teletext sales operation, Late Escapes, achieved an increase in sales of almost 40% over the previous year, predominantly in the late sales market.



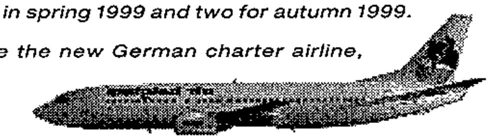


Matching the customer

to the ideal holiday from the wealth of products available is a lot easier with ***Matchmaker*** *– Going Places' unique new service. It includes a multi-media presentation of different holiday concepts, an electronic planning service which prompts our travel advisers to ask the right questions (and capture the right data for when a booking is made), and a sophisticated search system for flight information.*

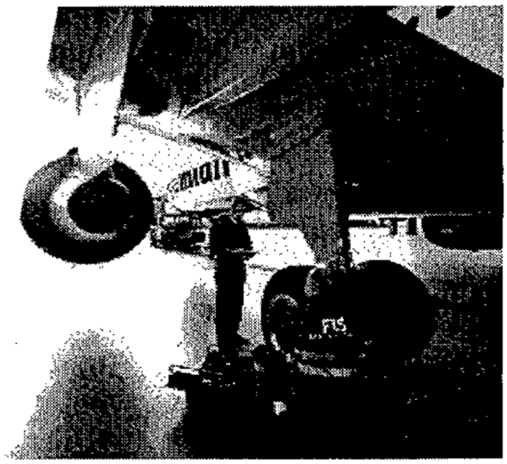


Flying High. Chartered air travel is a major element of the air-inclusive holidays which form the core of Airtours' business. Our growing fleet of aircraft means that we can control much of our own flight capacity, earn higher margins on each holiday, and give our passengers a consistent and reliable standard of service.



Airtours' flying requirements

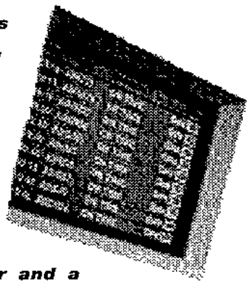
are substantially satisfied by the three in-house airlines: **Airtours International**, serving the UK Leisure Group; **Premiair**, serving the Scandinavian Leisure Group; and **Air Belgium**, serving the West European Leisure Group. In 1998, we introduced two new 220-seat Airbus A321s, bringing our total fleet last summer to 36 aircraft. Seventeen of these are the Airbus A320/A321 type. The fleet also includes 11 Boeing 757, 737 and 767 aircraft, three Airbus A300s and five DC10-10s and DC10-30s. To keep pace with the increase in our tour operator volumes, and in accordance with our prudent approach to fleet capacity management, we ordered four new Airbus A330s, two for delivery in spring 1999 and two for autumn 1999. Next year we will also provide the new German charter airline, **Fly FTi**, with three 180-seat Airbus A320s. This expanding fleet gives Airtours flexibility to switch capacity between different airlines, and across different locations, in summer and winter. In this way we can maintain our leading position in having the highest utilisation of our aircraft and the highest load factors compared with all other airlines in the world.



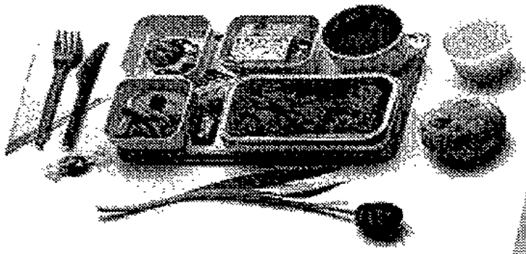
Maintenance activities

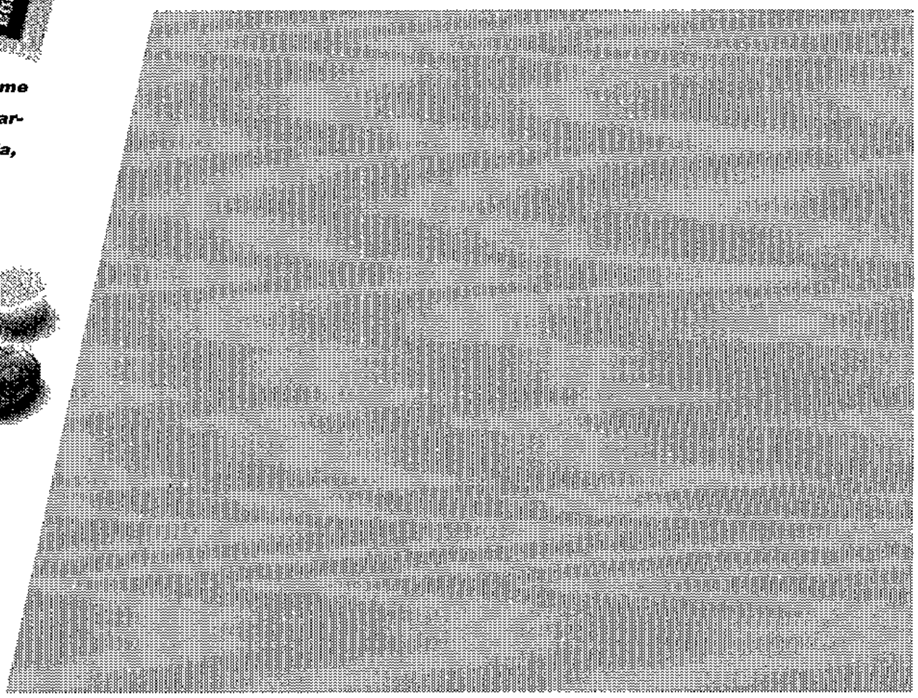
are outsourced to specialist aviation engineering companies. The main Airbus contractor is FLS Aerospace in Manchester and Copenhagen. The main Boeing contractor is Monarch Aircraft Engineering, and other companies are involved in various component and engine overhauls. Negotiating such worldwide support contracts enables us to obtain specialist expertise and high quality at the most economic prices.

On time departure



is the rule and delays are getting shorter as Airtours does everything possible to ensure that its flights fly on schedule. Although some airport delays are simply beyond our control, a number of initiatives have been introduced during the year and a special project team formed to improve on time performance. We continue to operate with a year-round standby aircraft in the UK and Scandinavia, ready to fly if, for any reason, they are needed.



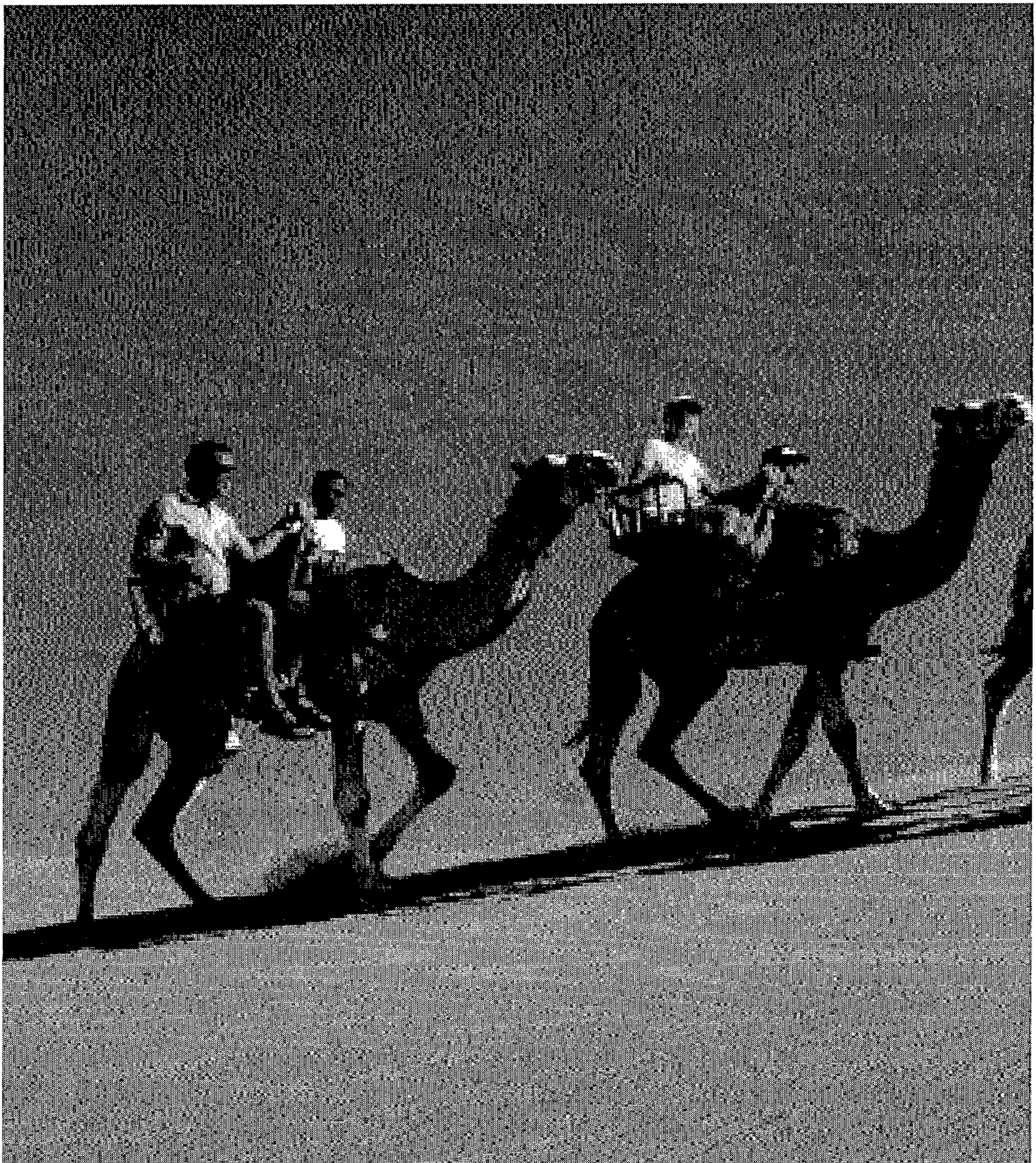


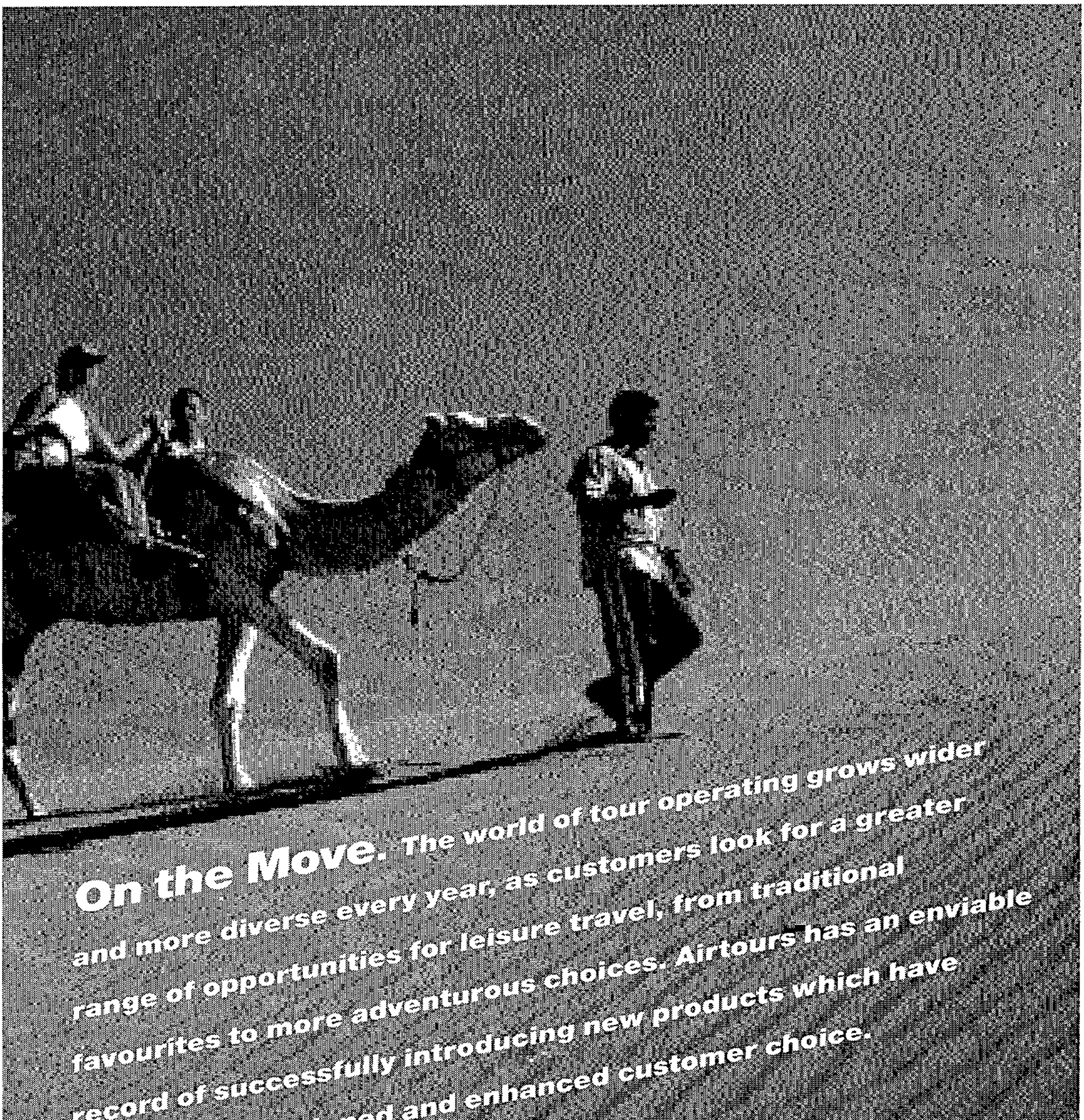
The flight experience

is very much part of the holiday package for our customers. Airtours' Aviation Division is responsible for ensuring the efficiency and safety of all our flights, as well as for customer service. In 1999 a new Flight Training Centre will be opened which will house the most advanced cabin crew training facilities in Europe together with an A320 full flight simulator for the Group's pilots. To build on a service already available in our Scandinavian and North American operations, an 'upper-class' service was successfully trialed on the UK based Boeing 747 which we used to operate trans-atlantic flights in summer 1998. Next year, this service will be upgraded into the full Premier Gold service on our new and reconfigured long-haul aircraft. The facilities we introduced on Airtours International flights in 1997, enabling passengers to pre-book their seats, meals and on-board shopping, continued to be enhanced, with improved software offering increased reliability and flexibility.

Our local airport presence

helps the four million round-trip passengers carried by Airtours each year get away smoothly – which can make all the difference to the enjoyment of the holiday. To help make things easier at busy airports, we have dedicated check-in areas at many points of departure. At Manchester Airport, for example, our check-in area is open round the clock allowing passengers, during peak season, to check-in up to 24 hours before their flight. Both airport and on-board service are tailored to the requirements of our local customers, and our pilots and cabin crew are recruited locally in the country of operation. There are Aviation Division staff and offices at most departure airports, and we always have a representative on hand to monitor the quality of our service.





On the Move. The world of tour operating grows wider and more diverse every year, as customers look for a greater range of opportunities for leisure travel, from traditional favourites to more adventurous choices. Airtours has an enviable record of successfully introducing new products which have substantially widened and enhanced customer choice.

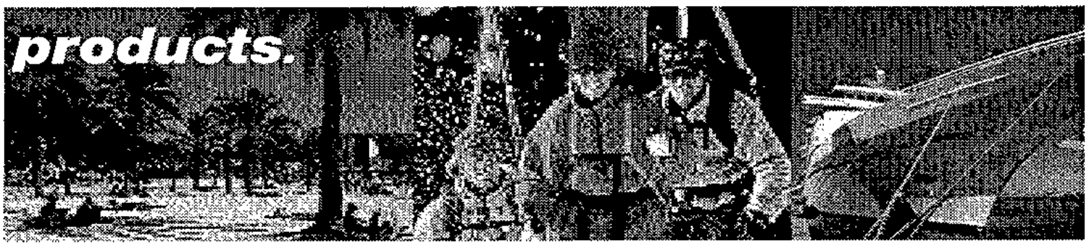
These people...

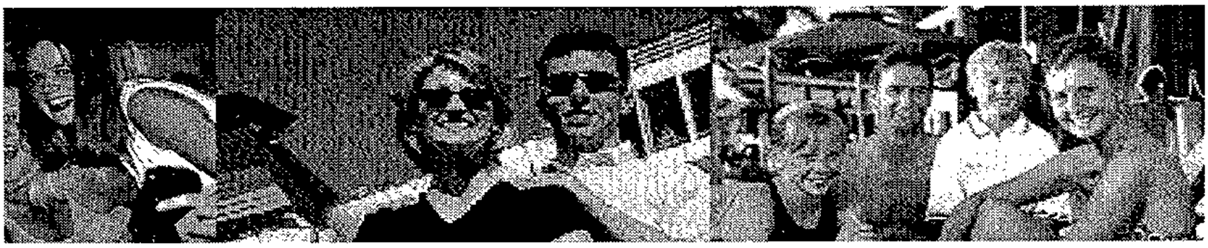
Airtours is growing organically *– as well as by acquisitions. This year we carried a record number of passengers in our existing businesses. The* ***UK*** *Leisure Group carried more passengers to more destinations than ever before. The* ***Scandinavian*** *Leisure Group continued to introduce new products such as cruises, long-haul and city breaks, which further strengthened our market position. We have also continued to invest in the development of our brands in* ***Finland*** *and a new business in* ***Poland****. Our* ***North American*** *Leisure Group, concentrated on rationalisation and*

...use these brands...

Airtours offers a remarkable range *of holidays.* ***Short breaks*** *are increasingly popular in the UK and Bridge Travel Group and Cresta Holidays are the leading operators in this markets, which is expanding rapidly as more people take several holidays a year. Cresta Holidays recently won contracts to operate inclusive tour programmes for Eurotunnel and Eurostar. Alongside prestigious, established brands such as Swiss Travel Service and Paris Travel Service, Bridge Travel Group also serves the newer destinations – Eurodisney, Brussels and other Belgian cities – using Eurostar services. In Germany, FTi has its own established range of brands. CA Ferntouristik offers long-haul holidays to the Americas, Australia, New Zealand and Africa.* ***New destinations*** *for FTi this year included Cuba, Jamaica, Mexico and Florida package holidays. Frosch Touristik added Majorca, Morocco and city trips to its short-haul Mediterranean portfolio. Other specialities include cruises, sporting holidays, travel for youngsters and Italian club holidays. Short-haul destinations are being expanded for 1999, with bookings now being taken for the Canaries, the Greek Islands, Turkey and Tunisia. In Belgium, France and Holland, the acquisition of Sun International brought us a wide range of medium and long-haul air-inclusive products. They are marketed under the Sunair, Airtour and Vakantie Toppers brand names and fly from airports in all three countries. Land-based packages include short*

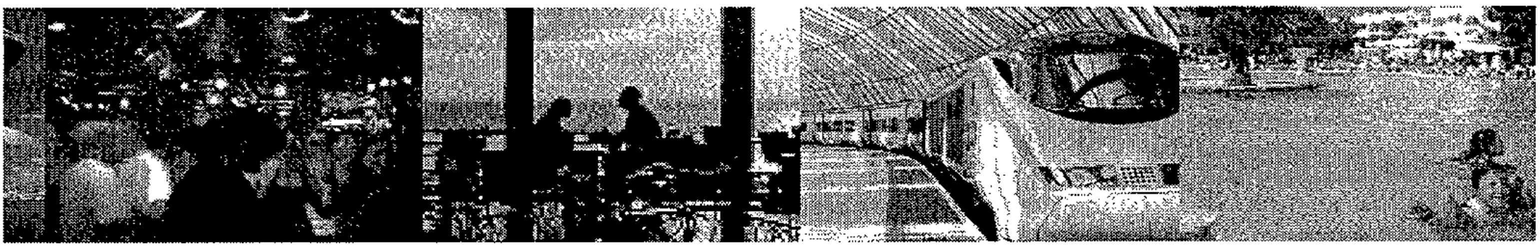
...to buy these products.

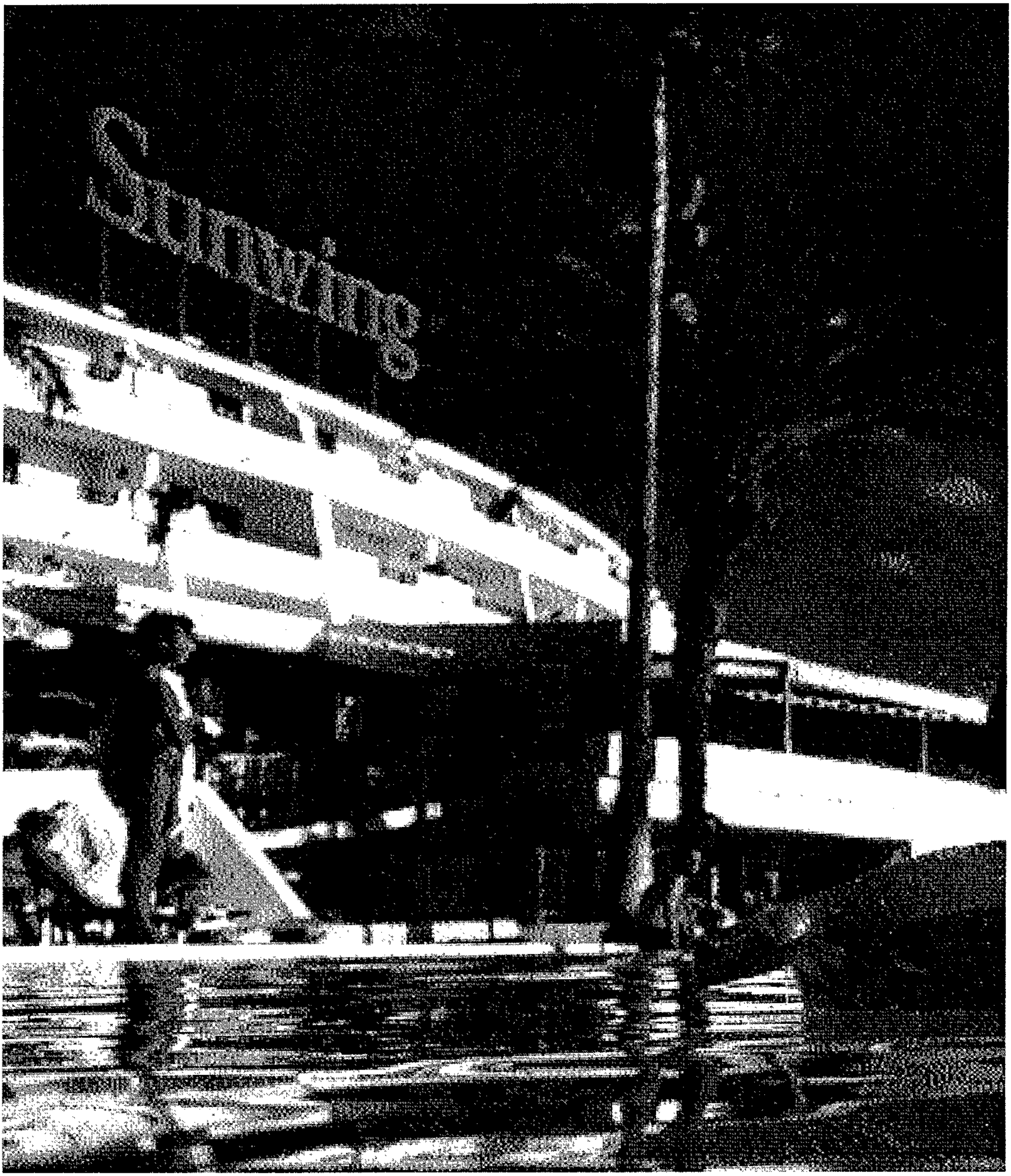




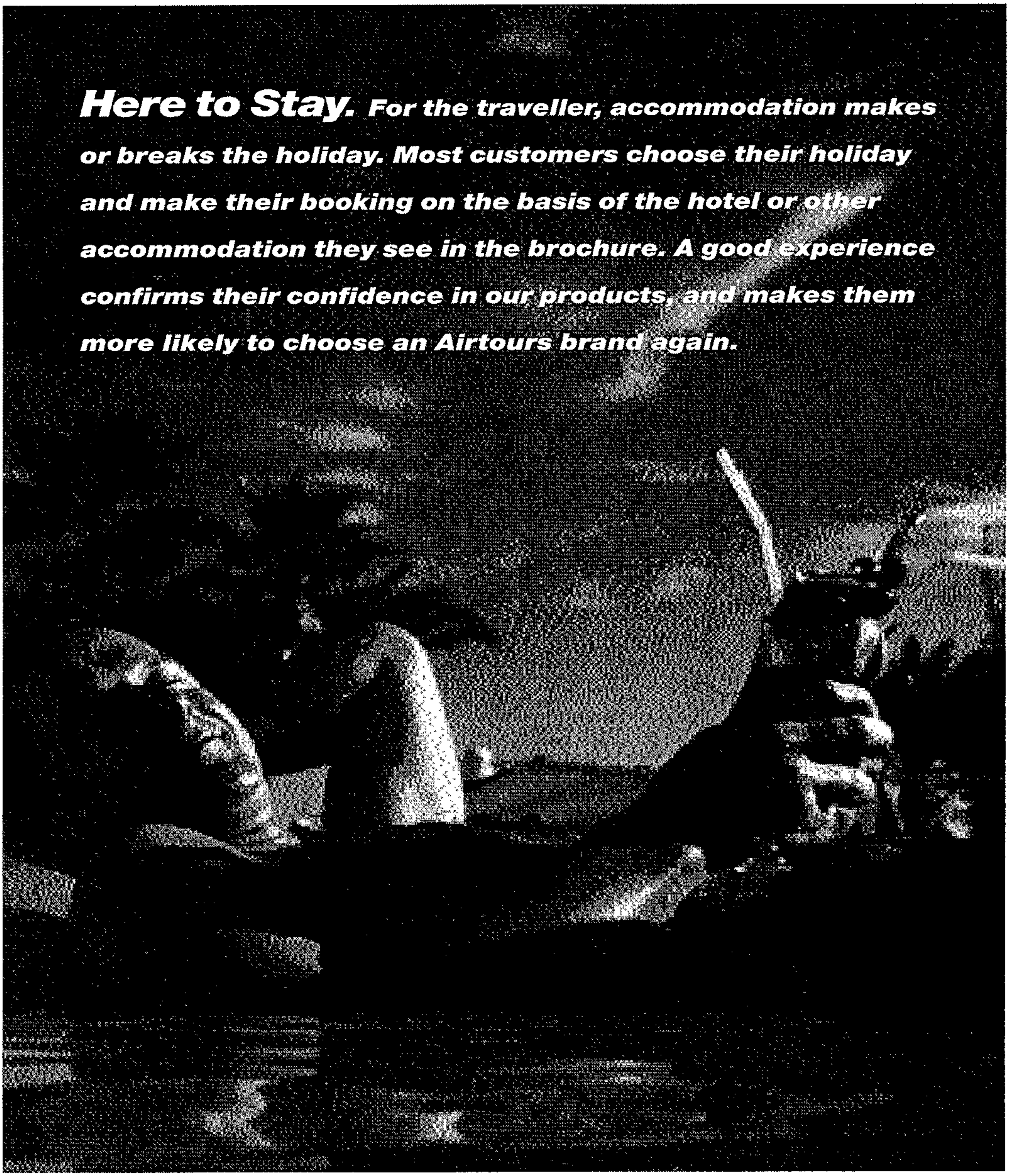
refocusing on those products which will generate profit growth. The acquisition of Sun International added Bridge Travel Group and Cresta Holidays to our UK portfolio, and with them some 600,000 new passengers. Direct Holidays and Direct Cruises brought another 230,000 passengers and Panorama Holidays Group added a further 165,000 passengers from the UK and Ireland. In **Europe**, the Sun acquisition delivered 700,000 new passengers a year through the Company's established business in Belgium, Holland and France. In **Germany** our newly acquired share in FTi gives us an interest in over one million passengers a year carried by this major German tour operator.

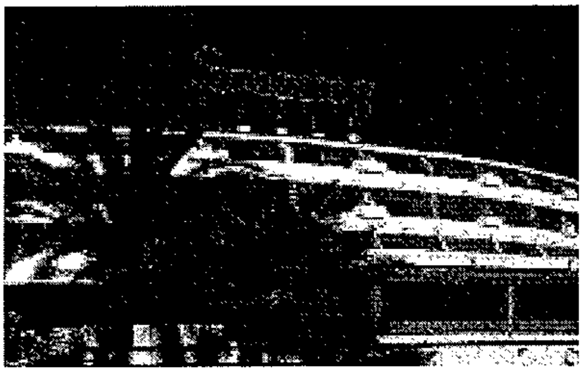
breaks and Eurodisney coach tours, and self-drive car holidays. All these operations are now incorporated into the West European Leisure Group. **Tailor-made holidays** represent one of the most exciting new developments for our customers, who are now able to create their own bespoke holidays. With Sun International, Airtours acquired the advanced information technology needed to package a unique combination from an extensive menu of options. In FTi, modular booking is the main system for destinations such as the USA, UK, Australia and South America. With **customer service** becoming an increasingly important product differentiator, all of our businesses are constantly enhancing the level of service provided to customers before, during and after the holiday experience. As examples: Airtours introduced the first loyalty card for package holiday customers; and FTi launched a special in-resort service to help the German-speaking tourist and deal with problems on the spot.




Sunwing

Here to Stay. For the traveller, accommodation makes or breaks the holiday. Most customers choose their holiday and make their booking on the basis of the hotel or other accommodation they see in the brochure. A good experience confirms their confidence in our products, and makes them more likely to choose an Airtours brand again.



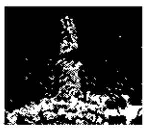


Airtours Sunwing Hotels *and Resorts represent our important investment in* ***prime locations*** *in the Mediterranean region and the Canary Islands where it is increasingly difficult to develop new accommodation. Our 17 properties are utilised by all parts of the Airtours group, ensuring high levels of occupancy throughout the year, for high-quality accommodation commanding premium prices. We continue to develop new ideas to suit different markets: in Scandinavia, for example, we are now marketing* ***Happy Baby*** *rooms with all baby equipment supplied, and more family apartments offering children's 'rooms within rooms'.*

Managing our own properties ***allows us to provide product differentiation. All rooms at Club Bouganvilla Park in Majorca were extensively refurbished last winter, with work on the public rooms continuing in winter 98/99. A major success has been the entertainment complex, where customers enjoyed great shows with excellent acoustics and visibility. Next year, Bouganvilla Park, Club Binimar in Menorca and Sunwing Grecian Bay in Cyprus will join seven other Sunwing Resort hotels which are now on sale for summer 1999. The marketing approach for this new concept, 'as individual as you are', emphasises quality accommodation at an affordable price. Meanwhile, we acquired land which will enable us to expand Sunwing Resort Rhodes.***

Hotel partnerships *also enable us to give our customers a great deal. Airtours' size and buying power allows us to set up very advantageous arrangements with third parties, such as exclusive access to popular hotels. We work hard at these partnerships long term, in order to meet the needs of our customers. We also make strategic alliances such as that with the Spanish group Sol Melia, with which we have a joint venture, Tenerife Sol, which owns three hotels in the Canary Islands.*

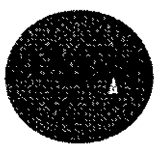
Vacation ownership ***is one of the most dynamic growth businesses in the leisure sector today. More and more people want the pleasure of staying in familiar surroundings, with the status of ownership. Airtours is currently making two major investments in this field, both under construction over the past year. The first phase of our joint venture resort, Oasis Lakes in Orlando, Florida, was completed and operational this year. Its initial 70 apartments have two or three bedrooms and there is a 30,000 square feet clubhouse. Airtours Beach Club in Gran Canaria, which opened in November 1998, offers 158 luxury one and two bedroom apartments with large balconies, plus four penthouse suites, all with views over the Atlantic. Both resorts have extensive facilities including heated pools and spas, bars and restaurants, and shops.***



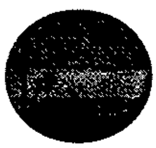
Our new flagship is the fourth in our growing fleet and will be ready to meet demand for summer 1999. We leased the $94m vessel, renamed the MS Sunbird, in April 1998 and she will be refitted and rebranded as our first four-star vessel. The 1,550-passenger ship, with 710 cabins, is 30% larger than our current largest ship, with plenty of extra deck space and sunbeds – including the Lido Deck with its air-conditioned mezzanine cafe. MS Sunbird will feature two swimming pools, two entertainment lounges, larger cabins than our three-star ships, all with colour televisions, and a premier class with nine balconied luxury suites. It will be based in Palma next summer, offering two seven-night itineraries: one covering Italy and the north Mediterranean, the other focusing on Malta and North Africa.

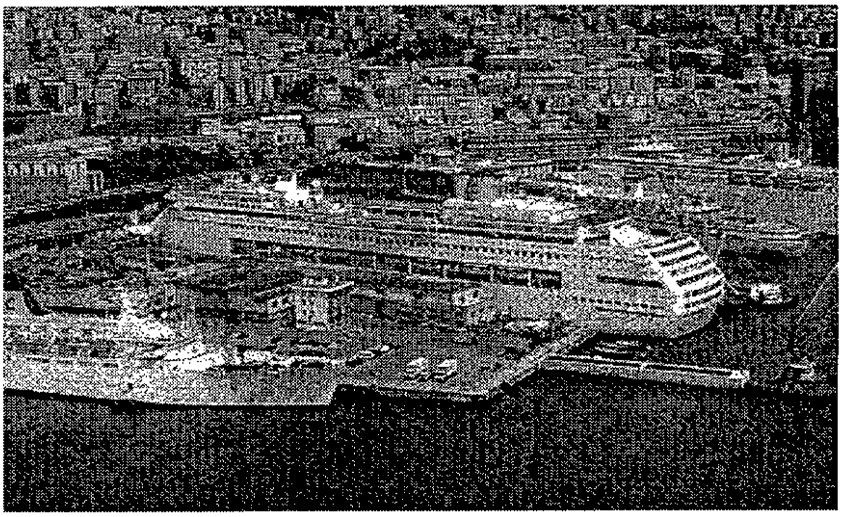
Airtours' own fly/cruise brand *carried passengers to destinations in the Caribbean and Mediterranean as varied as Barcelona and Barbados. Last year, our fourth year in cruising has been more successful than ever. Our three Sun Cruise ships carried customers from the UK, Scandinavia and North America ensuring high occupancy for both winter and summer schedules. We are attracting an increasing number of repeat customers, and believe that more and more experienced cruise passengers are turning to Sun Cruises for spacious, affordable accommodation. An increasing number of passengers are taking up our new innovation of* ***butterfly*** *cruises – two consecutive seven-night cruises with different itineraries in each week.*

Barbados



Gran Canaria





Direct cruises, *part of Direct Holidays, provides three-star-plus summer cruises lasting two weeks, departing from Greenock and Liverpool. Itineraries include Casablanca and the Canaries, a traditional southern Mediterranean cruise, the Norwegian fiords and an exciting voyage to Greenland.*

Costa Cruises *our 50% owned joint venture company ordered its eighth ship last year. It will be called* ***Costa Atlantica****, a name chosen by the company's employees. The new flagship, as high as a 20-storey building, is being commissioned at the Kvaerner Masa shipyard in Helsinki. Three-quarters of the 1,056 cabins will be external with a balcony – a new feature to the European market. Amongst its many attractions, the ship will have a replica of the famous Venetian Caffe Florian on board, faithfully reproducing its setting in St Mark's Square.*

Italy

Morocco

Norway

Malta

Operating & Financial Review

Financial highlights	1998	1997	% +/-
Turnover (£M)	**3,054.9**	2,309.4	32.3
Profit before tax (£M)	**140.3**	120.3	16.6
Earnings per ordinary share, basic (p)	**24.08**	21.27	13.2
Earnings per ordinary share, fully diluted (p)	**22.98**	19.68	16.8
Dividend per ordinary share (p)	**7.50**	6.67	12.4
Operating cash flows (£M)	**98.4**	155.9	-36.9

Group result Turnover, including our share from joint ventures, increased during the year by 32.3%, from £2,309.4m in 1997 to £3,054.9m. The increase of £745.5m comprised £227.8m from continuing business, £290.0m from businesses acquired during the year and £227.7m from our share of turnover from joint ventures. Profit before tax increased by £20.0m or 16.6%, from £120.3m in 1997 to £140.3m in 1998.

In the UK, profits from tour operations increased by £21.8m or 32.9%, from £66.3m to £88.1m and UK Retail increased profits by 13.6% to £15.9m compared to £14.0m in 1997. In our Other European businesses, profits fell from £39.2m to £17.0m, as a result of over-capacity during the summer season, certain one-off costs in Premiair and a loss of £0.5m from West European Leisure Group (WELG). The North American Leisure Group achieved a significant improvement by reducing a loss of £6.6m in 1997 to a loss of £1.1m in 1998. Profits from our joint ventures increased by £13.0m to £20.4m. The majority of this increase was generated by Costa Cruises who achieved record profits of £21.0m compared to high season profits of £5.1m last year.

Taxation The Group's taxation charge for the year of £33.3m represents 23.7% of profit before tax, compared to 24.6% in 1997. This rate is expected to prevail for the foreseeable future.

Earnings and dividend Basic earnings per share increased by 13.2% to 24.08p, compared to 21.27p in 1997. Fully diluted earnings per share rose by 16.8% to 22.98p, compared to 19.68p in 1997.

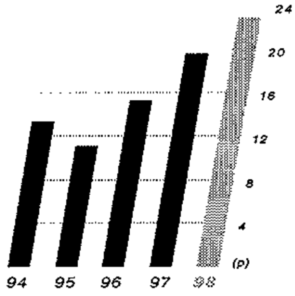
The Board is recommending a final dividend of 6.00p per ordinary share which, together with the interim dividend of 1.50p, gives a total dividend of 7.50p for the year: an increase of 12.4% over the previous year. The Board proposes to pay the 1998 final dividend on 6 April 1999, approximately seven weeks later than last year, to take advantage of the benefits arising from the abolition of advance corporation tax on dividends paid on or after 6 April 1999. At this level, the dividend is covered 3.21 times by earnings.

Business development The following acquisitions and equity investments were made during the financial year: Bahia Feliz vacation ownership development (October 1997); Sun International Group, including Bridge Travel Group and Cresta Holidays in the UK (January 1998); FTi (29% acquired May 1998); Direct Holidays (July 1998); Panorama Holiday Group and Vacation Express (both September 1998).

Cash balances and cash flow During the year the Group generated a positive operating cash flow of £98.4m, a reduction of £57.5m over the previous year reflecting the increased working capital requirements of the expanded Group. In addition, the Group received £79.3m from the issue of new equity shares and £61.9m from our joint venture Costa Cruises. Of the £79.3m cash inflow arising from the issue of new shares £78.6m was raised via a Vendor Placing in respect of the acquisition of Direct Holidays. The cash inflow from Costa Cruises arose from the repayment of loans made by Airtours.

The Group had cash outflows during the year of £85.1m in relation to net capital expenditure, £31.4m in respect of dividends and acquisitions absorbed a further £149.7m of cash. As a result of these activities, cash and deposits at the year end amounted to £364.2m compared with £406.6m last year.

Fully diluted eps



Balance sheet £M

	1998	1997
Tangible fixed assets	**321.4**	267.8
Investments	**71.6**	52.1
Net current assets	**4.1**	138.0
Long term liabilities	**(231.1)**	(211.6)
Net assets	**166.0**	246.3

Capital investment and financial resources During the year the Group invested £87.6m in capital expenditure compared to £87.9m last year. The principal items of expenditure were £27.4m of computer systems, £21.7m of aircraft and aircraft spares and £10.9m of land and buildings. Other additions, totalling £27.6m, included fixtures and fittings for our hotels and retail outlets.

The Group's net assets at 30th September 1998 amounted to £166.0m compared to £246.3m as at 30th September 1997. The reduction of £80.3m reflects an increase in retained earnings of £70.5m, the issue of new shares of £86.5m, offset by exchange differences of £9.3m and the write off against reserves of £228.6m of goodwill arising from acquisitions undertaken during the year.

Preference shares During the year the 6.375p (net) convertible cumulative preference shares of 20p each were converted into fully paid ordinary shares pursuant to the Company's Articles of Association.

Year 2000 Airtours recognises the seriousness of the Y2000 problem and the potential for it to cause major disruption to any business's operations if not addressed in an effective and timely manner. Airtours, in common with much of the travel industry, is faced with two particular challenges. First it needs to have fully Y2000 compliant systems to support the sale of holidays which are sold up to 12 months or more in advance of departure. Secondly the safe and efficient passage of holidaymakers to and from their holiday destinations relies heavily on third parties, such as national air traffic control authorities and airports. These and all the other challenges represented by the Y2000 problem are being addressed by divisional management whose approach is co-ordinated by a senior executive of Airtours . As part of their individual responses, each division has:

- Implemented procedures to ensure that their core systems, hardware, software and all critical interfaces are able to process bookings involving travel on or after 1 January 2000;
- Taken steps to ensure that all other computer systems will be amended, where necessary, sufficiently early to avoid any impact on Airtours' day-to-day operations;
- Engaged in a process to determine the readiness of suppliers' systems to deal with the problem and their likelihood of being able to provide continuous service across the millennium. Where there is doubt that this may be the case contingency plans are made to source alternative suppliers.

The cost of work to address the Y2000 problem across the Group is expected to amount in total to approximately £8m in the financial years 1998, 1999 and 2000. These costs are charged to the profit and loss account as incurred.

Introduction of the euro Airtours is aware of the business opportunities and potential threats presented by the inception of EMU and the introduction of the euro. We are working actively to maximise these opportunities and are confident that any threats can be managed successfully. The Group's main computer systems are 'euro ready' and our main efforts are directed at maximising sales and marketing opportunities.

Financial Reporting Standard 12 This standard will become effective for Airtours' financial year ending 30th September 1999, and will provide that provisions and accruals are to be provided for in a company's balance sheet only where

Segmental turnover £M	1998	1997
UK Tour operations – continuing	**1,144.5**	1,014.3
UK Tour operations – acquisitions	**165.3**	.....
UK Retail	**198.3**	175.8
Other Europe – continuing	**848.1**	834.5
Other Europe – acquisitions	**124.7**	.....
North America	**272.5**	211.0
Group turnover	**2,753.4**	2,235.6
Joint ventures		
Costa	**202.8**	66.1
FTI	**88.1**	.....
Tenerife Sol	**8.0**	7.7
Lake Eve	**2.6**	.....
Turnover – Group and share of joint ventures	**3,054.9**	2,309.4

a legal or constructive obligation to transfer economic benefits exists at the balance sheet date. As at 30th September 1998 Airtours' balance sheet included provisions of £43.0m in respect of aircraft maintenance. The Directors are currently considering the implications of this standard which may require previously reported results and net assets to be restated.

Risk management The Group has prudent operating and financial policies and procedures designed to maximise profits within a tightly defined risk management framework. Compliance is monitored by Group management and by the Risk Management Committee, consisting of senior executives reporting to the Board. Exposures to fluctuations in customer demand are managed by restricting the amount of in-house flying and accommodation to pre-defined levels. The Board has established prudent and conservative treasury policies which are reviewed regularly to ensure they remain relevant to our rapidly expanding business. In order to minimise the Group's exposure to changes to its cost structure, resulting from movements in the value of foreign currencies, fuel prices and interest rates, we use a combination of forward contracts and fixed price agreements.

Segmental analysis

UK tour operations Turnover from UK tour operations increased by 29.1% to £1,309.8m of which £165.3m arose from the businesses of Bridge Travel Group, Cresta Holidays and Direct Holidays which were acquired during the year. Profit before tax for continuing operations increased by £14.2m or 21.4% to £80.5m and acquisitions contributed a further £7.6m. The increase in profit in our continuing operations resulted principally from increased volumes, an improved mix of full priced brochure to discounted sales and higher brochure margins. The UK short breaks market showed particularly strong demand with the new businesses of Bridge Travel Group, Cresta Holidays and Direct Holidays performing ahead of our expectations made at the time of their respective acquisitions and carrying more passengers and generating higher profits compared to their prior years.

UK retail operations Increased volumes of business raised turnover from our UK retail operation by £22.5m, or 12.8%, to £198.3m. Profit before tax improved by £1.9m or 13.6% to £15.9m, as a result of higher average retail commission rates and increased profits from the expanded foreign exchange network.

Other European operations Total turnover for our Other European businesses amounted to £972.8m. The turnover of our continuing operations, which relates to Scandinavian Leisure Group (SLG) increased by £13.6m, to £848.1m. West European Leisure Group (WELG) formed from the overseas businesses of Sun International, acquired

Segmental profits £M

	1998	1997
UK Tour operations – continuing	80.5	66.3
UK Tour operations – acquisitions	7.6	.....
UK Retail	15.9	14.0
Other Europe – continuing	17.5	39.2
Other Europe – acquisitions	(0.5)	.....
North America	(1.1)	(6.6)
Joint ventures	20.4	7.4
Group profit	**140.3**	120.3

Joint ventures

Costa	21.0	5.1
FTi	(1.0)	.....
Tenerife Sol	2.2	2.3
Lake Eve	(1.8)	.....
Joint ventures profit	**20.4**	7.4

during the year, contributed a further £124.7m of turnover. Profit before tax of our continuing operations of £17.5m represents a reduction of £21.7m compared to last year. WELG incurred a loss of £0.5m in line with our expectations made at the time of acquisition.

Whilst market conditions in Scandinavia improved in the fourth quarter, and SLG achieved an improved year-on-year result for this period, the recovery was not sufficient to offset fully the capacity related problems of the earlier part of the year. The result also reflects the on-going investments in Finland and Poland together with non-recurring costs in Premiair.

North America The North American Leisure Group increased its turnover by £61.5m, or 29.1%, to £272.5m. This increase reflects a full year of trading from Sunquest Holidays and Suntrips together with improved market conditions. Losses were reduced by £5.5m to a loss of £1.1m compared to a loss of £6.6m in 1997. This result reflects a strong fourth quarter in which a £1.8m loss in 1997 was turned into a £2.2m profit in 1998. Whilst the rationalisation of our five North American brands has resulted in increased costs this year, it will produce cost savings in future years.

Joint ventures Our share of profits from our joint ventures increased by £13.0m to £20.4m in 1998. The profit contributed by Costa Cruises increased by £15.9m to £21.0m compared to £5.1m last year when we only included the results from the post acquisition summer period as adjusted for certain reorganisation provisions. This increase was achieved through improved load factors together with increased margins and lower operating costs.

FTi, in which we acquired a 29% interest in May 1998, made a loss in the post-acquisition period, our share of which was £1.0m, which was in line with our expectations at the time of acquisition. During the 11 months to 30th September 1998 FTi achieved a 50% increase in sales, mainly as a result of the launch of their new charter programmes.

The first phase of construction at Oasis Lakes resort, our vacation ownership joint venture, was completed during the year with pre-construction sales recognised in the third quarter. Our share of losses for the year amounted to £1.8m in part reflecting the write off of pre-construction costs. Our share of the profits of Tenerife Sol was £2.2m compared to £2.3m in 1997.

Summary These results highlight the importance of geographic diversification and a balanced portfolio of businesses. In a year where our Scandinavian operations faced adverse market conditions, the Group again delivered record profits and earnings.

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1 **David Crossland** ● aged 51. Chairman of the Company since 1972. A Director of Carnival Corporation. Over 35 years' experience in the travel industry.

2 **Sir Michael Bishop CBE** ● ⊛ aged 56. Non-Executive Director since 1987. Appointed Deputy Chairman in September 1996. Chairman, British Midland plc. Also a Non-Executive Director of Williams plc.

3 **Harry Coe** aged 54. Managing Director. Joined the Company in 1988 as Finance Director. Previously held Board level appointments in a diverse range of industries including electronics, printing, financial services and commercial television.

4 **Tim Byrne** aged 39. Finance Director. Joined Airtours in 1993 as Group Financial Controller. Previously held Board level positions in hotel, theme parks and television industries.

5 **Hugh Collinson** aged 54. Chairman of the Group's Cruise and Hotels Division. Joined the Company in 1985 as Finance Director. Previously Company Secretary of Thomas Locker (Holdings) plc and a Director of its UK trading subsidiaries.

6 **Mike Lee** aged 51. Joined Airtours in 1990 and appointed to the Board in 1993. Chairman of the Aviation Division. Over 33 years' airline industry experience.

7 **Christer Sandahl** aged 54. Joined Airtours in 1994 when Scandinavian Leisure Group was acquired. Appointed Director in 1996. Chief Executive of Scandinavian Leisure Group. Over 32 years' experience in the travel industry.

8 **Lars Thuesen** aged 42. Director since May 1998. Joined Airtours in 1994 when Scandinavian Leisure Group was acquired. Chairman of UKLG and WELG.

9 **Micky Arison** aged 49. Non-Executive Director appointed in 1996, and Chairman of Carnival Corporation.

10 **Roger Davies** aged 53. Non-Executive Director since May 1997. Previously Chairman of Going Places from 1994. Over 29 years' experience in the travel industry, including 20 years at Thomson Travel where he was Group Chairman and Chief Executive. A member of the Monopolies and Mergers Commission from 1989 to 1998.

11 **Sir Tom Farmer CBE** ⊛ aged 58. Non-Executive Director appointed in 1994. Chairman of Kwik-Fit Holdings plc, a Board member of Investors in People UK and Chairman of Scottish Business in the Community.

12 **Howard Frank** ⊛ aged 57. Non-Executive Director appointed in 1996. Vice Chairman of Carnival Corporation.

13 **Eric Sanderson** ● ⊛ aged 47. Non-Executive Director appointed in 1987. Chief Executive of Bank of Scotland Treasury Services plc and a member of the Management Board of Bank of Scotland. Also a Non-Executive Director of English and Overseas Properties plc and Oriel Leisure Limited.

● Member of the Remuneration Committee ⊛ Member of the Audit Committee

Corporate Advisers

Principal bankers

Barclays Bank plc
PO Box 283
51 Mosley Street
Manchester M60 2AU

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

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

Société Générale
Exchange House
Primrose Street
Broadgate
London EC2A 2HT

Financial advisers

Deutsche Bank
6 Bishopsgate
London EC2N 4DA

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

Financial communications

Brunswick Group
16 Lincolns Inn Fields
London WC2A 3ED

Stockbrokers

Hoare Govett Limited
4 Broadgate
London EC2M 7LE

Registrars and transfer office

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

Auditors

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

Solicitors

Addleshaw Booth & Co
100 Barbirolli Square
Manchester M2 3AB

Wilde Sapte
1 Fleet Place
London EC4M 7WS

Directors' Report

The Directors present their report together with financial statements and auditors' report for the year ended 30th September 1998.

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

In October 1997 the Company made its second investment in the vacation ownership sector of the leisure market with the acquisition of a beach front development in Bahia Feliz, Gran Canaria and is achieving very satisfactory pre-construction sales. In late 1997, the Company acquired the shares of Sun International NV which established the Company's presence in the Belgian, Dutch and French tour operating markets and at the same time made Airtours the market leader for short break holidays from the United Kingdom. Overseas expansion also continued during the year with the acquisition in May 1998 of a 29.03% interest in Frosch Touristik GmbH, a major tour operator in Germany, together with an option to acquire the remaining shares in 2002. In July 1998 the Company acquired Direct Holidays PLC whose main business is the sale directly to the customer, rather than through travel agents, of air inclusive and cruise packages. Summer 1998 has also seen the establishment of Scandinavian Leisure Group's Polish tour operation. This is the Group's first venture into Eastern Europe. The Company has also expanded into Ireland and south eastern USA following the acquisition of Panorama Holiday Group Limited and the tour operating business and assets of each of Vacation Express Limited Liability Corporation and Vacation Express Inc. on 30th September 1998. A full review of the Group's activities and its financial position at 30th September 1998 are reported in the Chairman's Statement, the Managing Director's Review, the Business Review and the Operating and Financial Review on pages 2 to 29.

Results and dividends Profits for the year after tax and minority interests amount to £106.7m (1997: £90.5m) from which preference dividends amounting to £1.0m (1997: £2.5m) have been deducted. The Directors recommend a final dividend of 6.00p (1997: 5.34p) per ordinary share amounting to £28.5m to be paid on 6th April 1999, which, with the interim dividend of 1.50p (1997: 1.33p) per ordinary share, amounting to £6.7m, paid on 1st July 1998, makes a total of 7.50p for the year (1997: 6.67p). The retained profit of £70.5m (1997: £59.4m) has been added to reserves.

Creditor payment policy It is the Company's policy to comply with the terms of payment agreed with its suppliers. Where 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 30th September 1998 was 33 days (1997: 33 days). The number of days credit taken by Group companies for trade purchases at 30th September 1998 ranges from 8 days to 63 days (1997: 13 days to 54 days). The average number of days taken was 30 days (1997: 34 days).

Directors The directors in office at the end of the year and their interests in the shares of the Company are listed on page 39. With the exceptions noted below all the directors served throughout the year.

Mr T R Byrne was appointed a director of the Company on 10th December 1997 and in accordance with the Articles of Association was re-elected as a director at the Annual General Meeting held on 22nd January 1998.

On 13th May 1998 Mr L Thuesen was appointed a Director of the Company. In accordance with the Articles of Association, Mr Thuesen retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Mr D Crossland, Sir Michael Bishop, Mr H H Collinson and Mr E F Sanderson retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr Crossland and Mr Collinson have service contracts terminable by the Company at any time on two years' notice and nine months' notice respectively. Sir Michael Bishop and Mr Sanderson each have a letter of appointment terminable by the Company at any time on six months' notice.

During the year, save as referred to in the Remuneration Committee Report and note 31 to the financial statements, 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.

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

The Airtours plc Savings-Related Share Option Scheme was introduced during 1993 and is open to all eligible employees within the United Kingdom. Under the terms of the Scheme the directors may offer options to purchase ordinary 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.

Directors' Report

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

Charitable and political donations The Group made UK charitable donations of £77,000 during the year. No political donations were made.

Substantial shareholders At 23rd November 1998, the Company had been notified of the following shareholdings, in addition to those of directors listed on page 39, amounting to 3% or more of the issued ordinary share capital of the Company:

	Number of shares held	*% of issued share capital*
Carnival Corporation	*123,344,501*	*25.91*
Schroder Investment Management Limited	*43,888,993*	*9.22*
Chase Nominees Limited	*42,983,943*	*9.03*
GE Investments	*20,385,962*	*4.28*

Annual General Meeting The notice convening the Annual General Meeting of the Company to be held on 11th February 1999 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the Annual General Meeting.

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

By order of the Board
G McMahon
SECRETARY
24th November 1998

REGISTERED OFFICE
Parkway One, Parkway Business Centre
300 Princess Road, Manchester M14 7QU

Corporate Governance

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

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

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

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

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

Directors' responsibilities Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss and cash flows of the Group for that period. In preparing those financial statements, the directors are required to select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Remuneration Committee Report

The members of the Committee are Mr D Crossland, the Chairman of Airtours plc (who is Chairman of the Committee), the Deputy Chairman Sir Michael Bishop and Mr E F Sanderson (both non-executive directors). Mr Crossland is a member of this Committee because of his knowledge of the business and the tour operating industry. 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 Committee have commissioned a review of the remuneration and other benefits paid and awarded to the executive directors and senior executives of the Company and the Group. The results of this review may lead to proposals in connection with remuneration and other benefits being submitted to shareholders for consideration and, if thought fit, approval. If any such approval is sought, appropriate details will be circulated with the notice of the Company's Annual General Meeting.

The main elements of directors' remuneration are:

(i) ***Base salary and benefits*** Base salaries for executive directors are reviewed with effect from April each year. Benefits generally include the provision of private health insurance, prolonged disability cover, death in service benefits and a fully expensed motor vehicle.

(ii) ***Bonuses*** (A) ANNUAL Bonus entitlements are dependent upon the actual performance of the Group compared to targets set at the beginning of the financial year by the Remuneration Committee. The annual bonus of directors is calculated on the basis of a maximum of 62.5% of base salary effective at 1st April in the relevant financial year, with the exception of Mr L Thuesen whose bonus may not exceed 100% of his base salary. For the year ended 30th September 1998 full provision for these bonuses has been made as profit targets have been achieved. Bonuses are normally paid in the December following the end of the relevant financial year in which they are earned.

(B) LONG TERM INCENTIVE PLAN Following the expiry of the Airtours plc Share Option Scheme (1986) a new share price related long term incentive plan was adopted by the Board in 1996. Subject to the achievement of testing performance criteria detailed below, it allows eligible employees, including executive directors, to earn benefits over a period typically of not less than four years. The scheme is designed to encourage senior executives to align their long term career aspirations with the long term interests of the Group.

Each participant in the scheme is notionally awarded a number of ordinary shares. The maximum payment entitlement is calculated by multiplying such number of ordinary shares by the share price quoted on the London Stock Exchange in respect of an ordinary share on a date, determined by the participant, during a two year period fixed at the date of the award, which period generally commences on the fourth anniversary of the date of the award. Payments, which can be taken in the form of ordinary shares, are spread over the period from exercise to the expiry of such two year period. Typically no payments can be made under the scheme before the fourth anniversary of the award date.

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

Remuneration Committee Report

At 1st October 1997 (or the date of appointment to the Board if later) and 30th September 1998 the following notional awards of ordinary shares, which have been restated to take account of the 2 for 1 Capitalisation Issue to existing shareholders in January 1998, remain in existence:

	1998	1997
T R Byrne	**262,500**	180,000
A H Coe	**450,000**	450,000
H H Collinson	**300,000**	300,000
M C Lee	**300,000**	300,000
B C Sandahl	**300,000**	300,000

Save for the award of 82,500 notional ordinary shares made to Mr T R Byrne on 1st April 1998, following his appointment to the Board, there have been no other awards of notional ordinary shares, nor payments, made to directors in the year ended 30th September 1998. In order to align this award with the previous awards, the four year period over which growth is to be measured expires on 24th September 2000 and the exercise period runs for two years thereafter.

At 30th September 1998 an amount of £3,037,000 has been accrued for benefits that may fall due to directors under the long term incentive plan (1997: £983,000). The earliest date upon which benefits under the plan can be taken is 24th September 2000.

(iii) ***Pension rights*** Mr T R Byrne and Mr A H Coe are each members of the Company's defined contribution scheme into which the Company, each year, contributes, in respect of Mr Coe, 27.5% of his base salary and, in respect of Mr Byrne, 14% of his base salary together with a further 11% in arrears in the event that the Group's profit target for the relevant financial year is met. Full provision has been made for these contributions in respect of the year ended 30th September 1998.

Mr H H Collinson and Mr M C Lee have their own non-contributory executive pension schemes. With regard to Mr Collinson, the Company each year contributes, subject to Inland Revenue limits, the lesser of such sum as shall ensure that Mr Collinson will receive a pension entitlement equal to two-thirds of his base salary at his retirement date or a contribution equal to 50% of his base salary. In the year ended 30th September 1998 the Company's contribution was restricted to 50% of Mr Collinson's base salary and this situation is likely to continue in the future. With regard to Mr Lee, the Company each year contributes 14% of his base salary together with a further 11% in arrears in the event that the Group's profit target for the relevant financial year is met. Full provision has been made for these contributions in respect of the year ended 30th September 1998.

With regard to Mr B C Sandahl, the Company each year contributes 25% of his base salary into a pension scheme together with a further 15% into a pension scheme pursuant to his entitlement under the terms of his service contract with Scandinavian Leisure Group AB.

Mr D Crossland and Mr L Thuesen are not entitled to any pension rights under the terms of their contracts.

(iv) ***Share option schemes*** (A) AIRTOURS PLC SHARE OPTION SCHEME (1986) The Company operated an executive share option scheme which was adopted by the Board on 30th June 1986, amended by shareholders on 25th January 1990, and further amended by resolution of the Board on 10th October 1994. The scheme was set up for a period of ten years and in accordance with the rules of the scheme the last date on which options could be granted was 29th June 1996.

Options granted under the scheme are normally exercisable, in the case of Class 1 options, between three years and ten years 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 earnings per share of the Company, calculated over any six consecutive accounting periods, (the earliest being not earlier than the most recent accounting period ending on a date prior to the grant date of such Class 2 options) being equal to or greater than the percentage increase in earnings per share for the same period of the constituent company which, in terms of earnings per share growth for the same period, ranks as the lowest of the top quartile of those companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index.

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

The options may normally be exercised in the period between five years and five years and six months from the commencement date of the relevant savings contract.

Eligible UK employees were invited to apply for the grant of options in July 1993 and in December 1996.

Airtours Quest Trustee Limited is the trustee of an Inland Revenue approved Qualifying Employee Share Ownership Trust, which 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 Savings-Related Share Option Scheme who exercise their options from time to time.

Remuneration Committee Report

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

The service contract of Mr B C Sandahl is terminable by the Company giving not less than 12 months' notice. Mr L Thuesen has a fixed term service contract of two years expiring on 31st July 1999.

Mr H H Collinson's contract is terminable by the Company giving not less than 9 months' notice and provides that, upon termination, Mr Collinson would receive a sum not exceeding 87% of his then maximum aggregate annual entitlement to salary, bonus and pension contributions and also provides that Mr Collinson would continue, for a period of 15 months following termination, to receive certain other benefits provided under the contract (or payment in lieu, to the extent that such benefits can no longer be provided).

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

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

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

Remuneration in respect of directors was as follows:

£000	Annual base salary September 1998	Salary & fees	Bonus	Benefits	Total emoluments	Pension contributions	Total 1998	Total 1997
Executive								
D Crossland, Chairman	**450**	420	281	67	768	.....	**768**	666
T R Byrne	**225**	167	141	12	320	46	**366**	.....
A H Coe	**370**	343	231	21	595	94	**689**	562
H H Collinson	**303**	299	189	11	499	151	**650**	634
M C Lee	**265**	252	166	16	434	63	**497**	425
B C Sandahl	**225**	214	146	9	369	82	**451**	428
L Thuesen	**207**	81	207	77	365	.....	**365**	.....
		1,776	1,361	213	3,350	436	**3,786**	2,715
Non-executive								
M M Arison	.....	.....	.....	.....	.....	.....	.....	.....
Sir Michael Bishop	**50**	50	.....	.....	50	.....	**50**	51
R O Davies	**33**	103	.....	.....	103	.....	**103**	1,190
Sir Tom Farmer	**17**	17	.....	.....	17	.....	**17**	17
H S Frank	.....	.....	.....	.....	.....	.....	.....	.....
E F Sanderson	**17**	17	.....	.....	17	.....	**17**	17
		187	.....	.....	187	.....	**187**	1,275
Total		1,963	1,361	213	3,537	436	**3,973**	3,990

The amounts included in the table above for salaries and pension contributions paid in the year, for Mr T R Byrne and Mr L Thuesen, relate only to the period since their appointment to the Board.

Remuneration Committee Report

On 28th September 1998 the Company agreed to pay to Mr L Thuesen (who was appointed to the Board during the year) the sum of £406,250 in settlement of his accrued entitlement under a divisional bonus scheme arising from his employment with the Group, which had become inappropriate as a consequence of his appointment to the Board. Mr Thuesen agreed to apply the net amount received in purchasing, in the market, shares in the Company and on 30th September 1998 acquired 70,000 shares in the Company. This amount, which is not included in the table above, was paid to Mr Thuesen on 6th October 1998.

Total directors' remuneration for 1997 amounted to £4,050,000, of which £60,000 related to a former director of the Company not listed in the above table. The 1997 figure for Mr R O Davies includes £1,000,000 paid to Mr Davies on 27th January 1997 under the terms of a shadow share option scheme and his then existing service contract.

In addition to the above, compensation for loss of office amounting to £85,245 (1997: £112,235) has been paid during the year to a former director of the Company. In 1997, a further amount of £125,235 was also paid into the Company's defined contribution pension scheme for a former director's benefit.

The interests, beneficial unless otherwise indicated, of the directors in the shares of the Company, as shown by the register maintained under section 325 of the Companies Act 1985, at 1st October 1997 (or the date of their appointment to the Board if later) and 30th September 1998 were as follows:

	Ordinary shares 1998	*Ordinary shares 1997*	**Class 1 options over ordinary shares 1998**	*Class 1 options over ordinary shares 1997*	**Class 2 options over ordinary shares 1998 & 1997**	**SAYE scheme options over ordinary shares 1998 & 1997**	*Preference shares 1997*
D Crossland	**48,539,874**	48,539,874	.....	.....	.....	.....	.....
M M Arison*	**123,344,501**	120,000,000	.....	.....	.....	.....	3,789,374
Sir Michael Bishop	**201,600**	201,600	.....	.....	.....	.....	.....
T R Byrne	.....	.....	.....	.....	**360,000**	**8,859**	.....
A H Coe**	**129,138**	129,138	**150,000**	150,000	**271,620**	**18,795**	.....
H H Collinson	**100,000**	750,000	.....	195,000	**195,000**	**18,795**	.....
R O Davies	**30,000**	30,000	.....	.....	.....	.....	.....
Sir Tom Farmer	**75,000**	75,000	.....	.....	.....	.....	.....
H S Frank	.....	.....	.....	.....	.....	.....	.....
M C Lee***	**127,869**	121,206	**300,000**	300,000	**421,620**	**18,795**	5,000
B C Sandahl	.....	.....	.....	.....	.....	.....	.....
E F Sanderson	**18,720**	18,720	.....	.....	.....	.....	.....
L Thuesen	**70,000**	.....	.....	.....	.....	.....	.....

*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 (1st October 1997: 120,000,000) registered in the name of Carnival (UK) Limited, a wholly owned subsidiary of Carnival Corporation.

**Of the 129,138 ordinary shares (1st October 1997: 129,138) 70,782 (1st October 1997:70,782) represents a non-beneficial interest.

***Of the 127,869 ordinary shares (1st October 1997: 121,206) 250 (1st October 1997: nil) represents a non-beneficial interest.

The 1997 figures noted above have been restated to reflect the Capitalisation Issue in January 1998.

In the period between 30th September 1998 and 23rd November 1998 inclusive there were no changes in the directors' interests referred to above.

As at 30th September 1998 the undermentioned directors had outstanding the following options to acquire ordinary shares of the Company under the terms of the Airtours plc Share Option Scheme (1986) or the Airtours plc Savings-Related Share Option Scheme.

Remuneration Committee Report

		At 30th September 1998	At 1st October 1997	Exercise price	Date from which exercisable	Expiry date
T R Byrne	Class 2	**210,000**	210,000	149.50p	05.08.99	04.08.04
	Class 2	**150,000**	150,000	135.67p	14.07.00	13.07.05
	SAYE	**8,859**	8,859	194.70p	01.03.02	31.08.02
A H Coe	Class 2	**121,620**	121,620	38.56p	05.07.96	04.07.01
	SAYE	**18,795**	18,795	91.70p	01.10.98	31.03.99
	Class 1	**150,000**	150,000	149.50p	05.08.97	04.08.04
	Class 2	**150,000**	150,000	149.50p	05.08.99	04.08.04
H H Collinson	SAYE	**18,795**	18,795	91.70p	01.10.98	31.03.99
	Class 1	.....	195,000	149.50p	.....	.....
	Class 2	**195,000**	195,000	149.50p	05.08.99	04.08.04
M C Lee	Class 2	**121,620**	121,620	38.56p	05.07.96	04.07.01
	SAYE	**18,795**	18,795	91.70p	01.10.98	31.03.99
	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

The number of shares under option and the exercise prices noted above have been restated to take account of the Capitalisation Issue to existing shareholders in January 1998.

The mid-market price of the Company's ordinary shares at the close of business on 30th September 1998 was 352.5p (1997: 350.8p) and the range during the financial year ended 30th September 1998 was 282.5p to 541.0p. These mid-market prices and the range of prices are as derived from the London Stock Exchange Daily Official List.

None of the directors were granted any share options during the year ended 30th September 1998. No directors' share options lapsed unexercised during the year.

Set out below is a summary of the gains on exercise made by Mr H H Collinson, the only director to exercise any share options during the year. Mr Collinson was also the only director to exercise any share options during the year ended 30th September 1997, making a gain of £2,031,238 in that year.

		Exercised during year	Exercise price	Market price at date of exercise	Gain £
H H Collinson	Class 1	195,000	149.5p	456.5p	598,650

Auditors' Reports

To the members of Airtours plc We have audited the financial statements on pages 42 to 67 which have been prepared under the historical cost convention and the accounting policies set out on pages 42 and 43. We have also examined the amounts disclosed relating to the emoluments, share options, long term incentive scheme interests and pension entitlements of the directors which form part of the report to shareholders by the Remuneration Committee on pages 36 to 40.

Respective responsibilities of directors and auditors As described on page 35 the Company's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30th September 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
Bank House
9 Charlotte Street
Manchester M1 4EU
24th November 1998

To Airtours plc on corporate governance matters In addition to our audit of the financial statements, we have reviewed the directors' statement on page 35 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

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

Opinion With respect to the directors' statements on internal financial control and going concern on page 35, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 35 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Arthur Andersen

Arthur Andersen
Chartered Accountants
Bank House
9 Charlotte Street
Manchester M1 4EU
24th November 1998

Accounting Policies

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

The principal accounting policies of the Group, all of which have been applied consistently throughout the year and the preceding year, with the exceptions explained in notes 1 and 11 to the financial statements on pages 48 and 56 respectively, are set out below.

1. ***Basis of consolidation*** The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 30th September 1998. The results of subsidiary undertakings acquired during the year have been included from the date of acquisition. Acquisitions are accounted for under the acquisition method with goodwill, representing the difference, if any, of the fair value of the consideration given compared to the fair value of the identifiable assets and liabilities acquired, being written off against or added back to reserves. Profits and losses on intra-group transactions are eliminated in full.

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

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

   Those undertakings in which the Group has a long term interest and which are jointly controlled by the Group and 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 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 on the gross equity method on consolidation and associated undertakings are valued at the Group's share of net assets, after adjustment for goodwill.

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

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

5. ***Aircraft overhaul and maintenance costs*** Provision is made for the future costs of major overhauls of engines, auxiliary 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.

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

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

Accounting Policies

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

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

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured.

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 United Kingdom.

9. Foreign currencies 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 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.

10. Leased assets 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.

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

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

The accounting policies on pages 42 and 43 and notes on pages 48 to 67 form part of these financial statements.

Group Profit & Loss Account

Year ended 30th September (£M)	Notes	1998	1998	1997
Turnover: group and share of joint ventures				
Continuing operations			**2,676.8**	2,309.4
Acquisitions			**378.1**	.....
	1		**3,054.9**	2,309.4
Less: share of joint ventures' turnover			**(301.5)**	(73.8)
Group turnover	1		**2,753.4**	2,235.6
Cost of sales	2		**(2,350.7)**	(1,900.0)
Gross profit			**402.7**	335.6
Net operating expenses	2		**(299.9)**	(236.7)
Operating profit	1			
Continuing operations		**90.7**		98.9
Acquisitions		**12.1**		.....
			102.8	98.9
Income from interests in joint venture undertakings	1		**36.3**	11.9
Net interest receivable/(payable)	1,3			
Group			**17.1**	14.0
Joint ventures			**(15.9)**	(4.5)
Profit on ordinary activities before tax	1,4		**140.3**	120.3
Tax on profit on ordinary activities	5		**(33.3)**	(29.6)
Profit on ordinary activities after tax			**107.0**	90.7
Minority interests – equity			**(0.3)**	(0.2)
Profit for the financial year	6		**106.7**	90.5
Dividends	7			
Equity		**(35.2)**		(28.6)
Non-equity		**(1.0)**		(2.5)
			(36.2)	(31.1)
Profit retained	21		**70.5**	59.4
Basic earnings per ordinary share	8		**24.08p**	21.27p*
Fully diluted earnings per ordinary share	8		**22.98p**	19.68p*

* as restated

Statement of total recognised gains and losses

Year ended 30th September 1998 (£M)	1998	1997
Profit for the financial year	**106.7**	90.5
Currency differences on foreign currency net investments	**(9.3)**	(20.6)
Total recognised gains and losses relating to the year	**97.4**	69.9

The accounting policies on pages 42 and 43
and notes on pages 48 to 67
form part of these financial statements

Group Balance Sheet

At 30th September (£M)	Notes	1998	1997
Fixed assets			
Tangible assets	10	321.4	267.8
Investments	11		
Joint ventures			
Share of gross assets		415.8	350.2
Share of gross liabilities		(346.6)	(299.0)
		69.2	51.2
Other		2.4	0.9
		71.6	52.1
		393.0	319.9
Current assets			
Stocks	12	17.0	6.4
Debtors: amounts falling due within one year	13	295.1	232.2
Debtors: amounts falling due after one year	14	118.7	99.5
Investments	15	11.1	10.9
Cash and deposits	16	364.2	406.6
		806.1	755.6
Creditors: amounts falling due within one year	17	(802.0)	(617.6)
Net current assets		4.1	138.0
Total assets less current liabilities		397.1	457.9
Creditors: amounts falling due after one year	18	(138.2)	(130.4)
Provisions for liabilities and charges	19	(92.9)	(81.2)
Net assets		166.0	246.3
Capital and reserves			
Called up share capital	20	47.5	20.0
Share premium account	21	84.6	178.4
Capital redemption reserve	21	3.2	3.7
Profit and loss account	21	29.6	43.7
Shareholders' funds		164.9	245.8
Minority interests – equity		1.1	0.5
		166.0	246.3
Shareholders' funds			
Equity shareholders' funds		164.9	217.8
Non-equity shareholders' funds		.....	28.0
		164.9	245.8

The financial statements were approved by the Board of Directors on 24th November 1998.

T R Byrne
DIRECTOR

The accounting policies on pages 42 and 43
and notes on pages 48 to 67
form part of these financial statements.

Company Balance Sheet

At 30th September (£M)	Notes	1998	1997
Fixed assets			
Tangible assets	10	**38.1**	37.5
Investments	11	**392.1**	358.1
		430.2	395.6
Current assets			
Stocks	12	**1.8**	0.6
Debtors: amounts falling due within one year	13	**556.6**	388.8
Debtors: amounts falling due after one year	14	**76.8**	61.0
Cash and deposits	16	**224.2**	252.1
		859.4	702.5
Creditors: amounts falling due within one year	17	**(737.9)**	(639.6)
Net current assets		**121.5**	62.9
Total assets less current liabilities		**551.7**	458.5
Creditors: amounts falling due after one year	18	**(75.9)**	(59.4)
Provisions for liabilities and charges	19	**(2.2)**	(0.5)
Net assets		**473.6**	398.6
Capital and reserves			
Called up share capital	20	**47.5**	20.0
Share premium account	21	**84.6**	178.4
Capital redemption reserve	21	**3.2**	3.7
Other reserves	21	**153.6**	.....
Profit and loss account	21	**184.7**	196.5
Shareholders' funds		**473.6**	398.6
Shareholders' funds			
Equity shareholders' funds		**473.6**	370.6
Non-equity shareholders' funds		.....	28.0
		473.6	398.6

The financial statements were approved by the Board of Directors on 24th November 1998.

T R Byrne
DIRECTOR

The accounting policies on pages 42 and 43 and notes on pages 48 to 67 form part of these financial statements

Group Cash Flow Statement

Year ended 30th September (£M)	Notes	1998	1997
Net cash inflow from operating activities	23	**98.4**	155.9
Returns on investments and servicing of finance			
Interest received		**30.0**	25.1
Interest paid		**(12.3)**	(11.2)
Preference dividends paid		**(1.9)**	(3.2)
Interest element of finance leases		**(0.6)**	(0.7)
Minority interests		**0.3**	.....
Net cash inflow from returns on investments and servicing of finance		**15.5**	10.0
Tax		**(15.9)**	(13.7)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(87.8)**	(88.0)
Loans to joint venture undertakings		**(11.9)**	(56.9)
Sale of tangible fixed assets		**2.6**	30.9
Sale of fixed asset investments		**0.1**	.....
Loans to joint venture undertaking repaid		**61.9**	.....
Net cash outflow from capital expenditure and financial investment		**(35.1)**	(114.0)
Acquisitions and disposals	11		
Purchase of subsidiary undertakings		**(164.6)**	(14.4)
Acquisition expenses		**(4.9)**	(0.4)
Sale of subsidiary undertakings		**1.2**	.....
Cash at bank and in hand acquired with subsidiaries		**38.2**	10.4
Investment in joint venture undertakings		**(19.6)**	(24.7)
Net cash outflow from acquisitions and disposals		**(149.7)**	(29.1)
Equity dividends paid		**(29.5)**	(23.1)
Cash outflow before use of liquid resources and financing		**(116.3)**	(14.0)
Management of liquid resources			
Movement on term deposits		**(19.3)**	114.4
Purchase of securities under managed investment		**(16.0)**	(9.5)
Sale of securities under managed investment		**15.8**	8.2
Net cash (outflow)/inflow from management of liquid resources		**(19.5)**	113.1
Financing			
Issue of shares		**80.3**	1.3
Expenses paid in connection with share issues		**(1.0)**	.....
Loan repayments		**(1.9)**	(140.6)
New bank loans		.....	148.2
Capital element of finance lease rental payments		**(0.7)**	(0.5)
Net cash inflow from financing		**76.7**	8.4
(Decrease)/increase in cash in the year	24	**(59.1)**	107.5

Notes to the Financial Statements

1. Segmental information (£M)

		1998	1997
Turnover			
UK	Tour operating – continuing	**1,144.5**	1,014.3
	Tour operating – acquisitions	**165.3**	.....
	Retail	**198.3**	175.8
Other Europe	Tour operating – continuing	**848.1**	834.5
	Tour operating – acquisitions	**124.7**	.....
North America	Tour operating	**272.5**	211.0
Group		**2,753.4**	2,235.6
Joint ventures	Costa	**202.8**	66.1
	Lake Eve	**2.6**	.....
	FTi – acquisition	**88.1**	.....
	Tenerife Sol	**8.0**	7.7
Group and share of joint ventures		**3,054.9**	2,309.4

Turnover from UK tour operating has previously been stated net of agents' commission. With effect from the year ended 30th September 1998 agents' commission which amounts to £76.6m in the current year, is being treated as a selling cost. The comparative figures for turnover and selling costs have been restated by £61.3m to reflect this change.

(£M)		1998	1997
Operating profit			
UK	Tour operating – continuing	**61.9**	55.3
	Tour operating – acquisitions	**11.6**	.....
	Retail	**10.6**	10.0
Other Europe	Tour operating – continuing	**16.3**	38.5
	Tour operating – acquisitions	**0.5**	.....
North America	Tour operating	**1.9**	(4.9)
		102.8	98.9
Income from interests in joint venture undertakings			
Costa		**35.7**	9.3
Lake Eve		**(1.1)**	.....
FTi – acquisition		**(0.6)**	.....
Tenerife Sol		**2.3**	2.6
		36.3	11.9
Net interest receivable/(payable)			
Group			
UK	Tour operating – continuing	**18.6**	11.0
	Tour operating – acquisitions	**(4.0)**	.....
	Retail	**5.3**	4.0
Other Europe	Tour operating – continuing	**1.2**	0.7
	Tour operating – acquisitions	**(1.0)**	.....
North America	Tour operating	**(3.0)**	(1.7)
		17.1	14.0

Notes to the Financial Statements

Note 1 continued: Segmental information (£M)	**1998**	1997
Net interest receivable/(payable) continued		
Joint ventures		
Costa	**(14.7)**	(4.2)
Lake Eve	**(0.7)**	.....
FTi - acquisition	**(0.4)**	.....
Tenerife Sol	**(0.1)**	(0.3)
	(15.9)	(4.5)

Profit on ordinary activities before tax		**1998**	1997
UK	*Tour operating – continuing*	**80.5**	66.3
	Tour operating – acquisitions	**7.6**	.....
	Retail	**15.9**	14.0
Other Europe	*Tour operating – continuing*	**17.5**	39.2
	Tour operating – acquisitions	**(0.5)**	.....
North America	*Tour operating*	**(1.1)**	(6.6)
Joint ventures	*Costa*	**21.0**	5.1
	Lake Eve	**(1.8)**	.....
	FTi - acquisition	**(1.0)**	.....
	Tenerife Sol	**2.2**	2.3
		140.3	120.3

	Total		**Tour operating**		**Retail**	
Net assets (£M)	**1998**	1997	**1998**	1997	**1998**	1997
UK	**93.1**	104.2	**65.1**	88.1	**28.0**	16.1
Other Europe	**58.4**	142.3	**58.4**	142.3	.....	.....
North America	**14.5**	(0.2)	**14.5**	(0.2)	.....	.....
	166.0	246.3	**138.0**	230.2	**28.0**	16.1

2. Cost of sales and net operating expenses

(£M)	**Continuing operations 1998**	**Acquisitions 1998**	**Total 1998**	*Restated total 1997*
Cost of sales	**2,108.6**	**242.1**	**2,350.7**	1,900.0
Net operating expenses				
Selling costs (see note 1)	**92.4**	**22.8**	**115.2**	85.2
Administrative expenses	**147.6**	**11.4**	**159.0**	122.8
Other charges	**24.1**	**1.6**	**25.7**	28.7
	264.1	**35.8**	**299.9**	236.7

Notes to the Financial Statements

3. Net interest receivable/(payable) (£M)

	1998	1997
Interest payable on:		
– bank borrowings	(7.2)	(6.8)
– other borrowings	(4.3)	(3.2)
Share of joint ventures' interest payable (see note 1)	(15.9)	(4.5)
Finance charges in respect of finance leases	(0.6)	(0.7)
	(28.0)	(15.2)
Interest capitalised	1.0	.....
	(27.0)	(15.2)
Bank interest receivable	28.2	24.7
	1.2	9.5

4. Profit on ordinary activities before tax (£M)

	1998	1997
The profit on ordinary activities is stated after charging:		
Auditors' remuneration		
– audit services	0.7	0.5
Depreciation of tangible fixed assets		
– owned	36.9	32.0
– held under finance leases	0.1	0.3
Operating lease payments		
– hire of aircraft and aircraft spares	93.7	82.7
– hire of other plant and machinery	0.7	1.5
– other	41.6	30.3

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 £2.2m (1997: £1.0m), of which £1.1m has been written off against goodwill or share premium account.

5. Tax on profit on ordinary activities (£M)

	1998	1997
The tax charge is based on the profit for the year and is made up as follows:		
United Kingdom		
Corporation tax	20.3	9.2
Deferred tax	7.0	11.7
	27.3	20.9
Overseas		
Corporation tax	2.3	5.7
Deferred tax	1.0	3.6
Tax on share of profits/(losses) of joint ventures	2.8	1.0
	33.4	31.2
Adjustments in respect of prior years		
United Kingdom		
Corporation tax	0.4	(0.8)
Deferred tax	(0.5)	(0.8)
	33.3	29.6

Notes to the Financial Statements

6. Profit for the financial year

The Company, as parent company of the Group, has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The profit after tax of the Company amounted to £24.7m (1997: £80.2m).

7. Dividends (£M)

	1998	1997
Equity dividends: ordinary		
1996 final dividend of 4.25p as restated per share paid on 17th February 1997 on share options exercised between 1st October 1996 and 7th January 1997	.....	0.1
Interim dividend of 1.50p per share paid 1st July 1998 (1997: 1.33p as restated)	**6.7**	5.7
Final dividend of 6.00p per share payable 6th April 1999 (1997: 5.34p as restated)	**28.5**	22.8
	35.2	28.6
Non-equity dividends: convertible cumulative preference dividend of 6.375p per share (1997: 6.375p per share)		
3.1875p per share paid 1st October 1997	.....	0.9
3.1875p per share paid 1st April 1998	**0.9**	1.6
1.3239p per share paid 30th July 1998	**0.1**	.....
	1.0	2.5
	36.2	31.1

The comparative figures for ordinary dividend per share have been restated to take account of the Capitalisation Issue in 1998.

8. Earnings per share

Basic earnings per ordinary share is based on the profit for the financial year, after deducting preference dividends, of £105.7m (1997: £88.0m) and on 439,303,324 (1997: 413,463,939) ordinary shares of 10p each, being the weighted average number of ordinary shares in issue during the year ended 30th September 1998.

Fully diluted earnings per ordinary share is based on adjusted earnings of £107.6m (1997: £91.3m) and on 468,267,502 (1997: 464,023,833) ordinary shares of 10p each which takes account of all outstanding share options and the conversion of the convertible cumulative preference shares.

The comparative figures of ordinary shares in issue have been restated to take account of the Capitalisation Issue in 1998.

9. Directors and employees (£M)

	1998	1997
Staff costs during the year were as follows:		
Wages and salaries	**241.4**	218.0
Social security costs	**26.1**	25.4
Other pension costs (see note 29)	**8.6**	6.2
	276.1	249.6

The average number of employees of the Group during the year was as follows:	**1998 Number**	1997 Number
Tour operations	**12,096**	9,260
Retail	**5,238**	4,568
	17,334	13,828

Further information concerning directors' emoluments and details of shareholdings and options is disclosed in the Remuneration Committee report on pages 36 to 40.

Notes to the Financial Statements

10. Tangible fixed assets (£M)

	Total	Freehold land & buildings	Short leaseholds	Assets in course of construction	Aircraft & aircraft spares	Cruise ships	Other fixed assets
The Group							
Cost							
At 1st October 1997	410.4	55.6	40.8	.....	109.4	66.1	138.5
Additions	87.6	10.9	4.1	2.2	21.7	4.7	44.0
Acquisition of subsidiary undertakings	24.2	6.1	0.7	0.9	0.3	.....	16.2
Reclassifications	(2.0)	4.0	0.1	.....	(4.5)	.....	(1.6)
Exchange differences	(7.5)	(1.6)	(0.5)	(0.1)	(3.5)	.....	(1.8)
	512.7	75.0	45.2	3.0	123.4	70.8	195.3
Disposals	(11.5)	.....	(1.3)	.....	(0.1)	.....	(10.1)
Disposal of subsidiary undertakings	(0.8)	(0.8)	.....	.....	.....	.....	.....
At 30th September 1998	**500.4**	**74.2**	**43.9**	**3.0**	**123.3**	**70.8**	**185.2**
Depreciation							
At 1st October 1997	142.6	10.8	27.0	.....	17.2	11.3	76.3
Provided in year	37.0	2.0	3.5	.....	9.5	6.0	16.0
Acquisition of subsidiary undertakings	13.8	1.5	.....	.....	0.2	.....	12.1
Reclassifications	(2.0)	1.0	(0.3)	.....	(3.5)	.....	0.8
Exchange differences	(2.5)	(0.4)	(0.5)	.....	(0.2)	.....	(1.4)
	188.9	14.9	29.7	.....	23.2	17.3	103.8
Disposals	(9.9)	.....	(1.2)	.....	.....	.....	(8.7)
At 30th September 1998	**179.0**	**14.9**	**28.5**	.....	**23.2**	**17.3**	**95.1**
Net book value at 30th September 1998	**321.4**	**59.3**	**15.4**	**3.0**	**100.1**	**53.5**	**90.1**
Net book value at 30th September 1997	267.8	44.8	13.8	.....	92.2	54.8	62.2
The Company							
Cost							
At 1st October 1997	67.0	2.6	3.5	.....	.....	.....	60.9
Additions	14.2	.....	0.2	.....	.....	.....	14.0
Intra group transfers	(8.0)	.....	(0.1)	.....	.....	.....	(7.9)
	73.2	2.6	3.6	.....	.....	.....	67.0
Disposals	(9.9)	.....	.....	.....	.....	.....	(9.9)
At 30th September 1998	**63.3**	**2.6**	**3.6**	.....	.....	.....	**57.1**
Depreciation							
At 1st October 1997	29.5	0.1	0.6	.....	.....	.....	28.8
Provided in year	6.9	.....	0.5	.....	.....	.....	6.4
Intra group transfers	(1.5)	.....	(0.1)	.....	.....	.....	(1.4)
	34.9	0.1	1.0	.....	.....	.....	33.8
Disposals	(9.7)	.....	.....	.....	.....	.....	(9.7)
At 30th September 1998	**25.2**	**0.1**	**1.0**	.....	.....	.....	**24.1**
Net book value at 30th September 1998	**38.1**	**2.5**	**2.6**	.....	.....	.....	**33.0**
Net book value at 30th September 1997	37.5	2.5	2.9	.....	.....	.....	32.1

Notes to the Financial Statements

Note 10 continued: Tangible fixed assets

Freehold land, amounting to £14.8m (1997 £8. 1m) for the Group and £2.2m (1997: £2.2m) for the Company, has not been depreciated.

(£M)	The Group 1998	1997
The net book value of finance leases, none of which relate to the Company, included above is made up as follows:		
Land and buildings	**4.0**	4.4
Aircraft spares	**0.8**	1.1
Other fixed assets	**0.1**	.....
	4.9	5.5

11. Fixed asset investments (£M)

	Total	Own shares held under trust	Subsidiary undertakings	Joint venture undertakings	Associated undertakings	Other investments
The Group						
Cost						
At 1st October 1997	52.1	.....	.....	51.2	0.1	0.8
Additions	1.2	1.5	.....	(0.3)	.....	.....
Exchange differences	0.2	.....	.....	0.3	.....	(0.1)
Acquired with subsidiary undertakings	0.2	.....	.....	.....	.....	0.2
Disposals	(0.1)	.....	.....	.....	.....	(0.1)
Share of profits	18.0	.....	.....	18.0	.....	.....
At 30th September 1998	**71.6**	**1.5**	.....	**69.2**	**0.1**	**0.8**
The Company						
Cost						
At 1st October 1997	358.1	.....	335.8	22.2	.....	0.1
Additions	34.1	.....	33.5	0.6	.....	.....
Disposals	(0.1)	.....	.....	.....	.....	(0.1)
At 30th September 1998	**392.1**	.....	**369.3**	**22.8**	.....	.....

Own shares held under trust

Shares of the Company are held under trust by Airtours Trustee Limited as part of a long term incentive plan for senior management. During the year ended 30th September 1998, Airtours Trustee Limited purchased shares in the Company on the open market, as set out below, with funds borrowed from the Company.

Date of purchase	Number of shares	Price per share
28th September 1998	400,000	£3.01
29th September 1998	100,000	£3.27

The number of shares held at 30th September 1998 was 500,000. These shares had a market value at that date of £1,762,500.

Notes to the Financial Statements

Note 11 continued: Fixed asset investments

Subsidiary undertakings

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

A list of principal subsidiary and joint venture undertakings is shown in note 33 to the financial statements on pages 66 and 67. All of the subsidiary undertakings have been consolidated in the Group financial statements.

Included as a subsidiary undertaking is the BTN Finance Company, a company in which the Company owns 50% of the issued ordinary share capital. The day-to-day management and treasury functions of this company are controlled by the Company. As the Company exercises dominant influence over this company, its results are therefore consolidated in these financial statements in accordance with Section 258(4a) of the Companies Act 1985.

The BTN Finance Company has a non-coterminous year end of 31st March and the Directors believe that to change this year end would be to the disadvantage of the other shareholder. The amounts included in these financial statements are based on audited financial statements prepared for the year to 31st March 1998 and management accounts for the period to 30th September 1998. On 1st October 1997 the BTN Finance Company redeemed £154m of preference shares owned by another Group company.

On 14th October 1997 the Company acquired Twickenham BV, the owner of a property in Bahia Feliz, Gran Canaria. The property has been developed into a vacation ownership resort.

On 25th November 1997 the Company exercised its option to purchase the shareholdings of the main shareholders of Sun International NV amounting to 80.7% of Sun International's issued share capital. On 16th January 1998 a tender offer for the residual shares was launched culminating in the acquisition of Sun International's remaining issued share capital. Sun International is the largest tour operator in Belgium and has operations in the UK, Holland and France.

On 21st July 1998 the Company acquired the entire issued share capital of Direct Holidays PLC for a maximum consideration of £80.7m. Direct Holidays sells air inclusive tours and cruises directly to the customer rather than through travel agents.

On 30th September 1998 the Company acquired Panorama Holiday Group Limited, a tour operator with activities in the UK and Ireland, and the tour operating business and assets of each of Vacation Express Limited Liability Corporation and Vacation Express Inc., both based in the USA.

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

(£M)	Last financial year end	(Loss)/profit after tax for the last financial year	Date of acquisition	(Loss)/profit after tax from last financial year end to date of acquisition	**Profit after tax from date of acquisition to 30th September 1998**
Subsidiary undertakings					
Sun International NV	31st October 1997	(22.5)	16th January 1998	(27.2)	**2.5**
Direct Holidays PLC	30th September 1997	0.9	21st July 1998	(7.0)	**1.4**
Panorama Holiday Group Ltd	30th September 1997	1.9	30th September 1998	0.7	.....

Notes to the Financial Statements

Note 11 continued: Fixed asset investments

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

	Sun International			Direct Holidays		Other acquisitions		
(£M)	Book value	Alignment of accounting policy	Fair value adjustments	Book value	Fair value adjustments	Book value	Alignment of accounting policy	Total fair value to the Group
Fixed assets	8.2	(1.8)	.....	0.8	(0.1)	3.3	.....	10.4
Investments	9.1	(8.9)	.....	.....	.....	.....	.....	0.2
Stocks	0.4	.....	(0.1)	0.1	(0.1)	2.2	.....	2.5
Debtors	47.4	.....	.....	27.3	(7.9)	5.2	.....	72.0
Tax	(5.1)	.....	.....	(0.3)	1.5	(0.2)	0.1	(4.0)
Cash and deposits	14.3	.....	.....	16.2	.....	10.3	.....	40.8
Creditors	(71.9)	(0.2)	(2.0)	(39.1)	(0.2)	(19.4)	(0.4)	(133.2)
Overdrafts	(1.8)	.....	.....	(0.8)	.....	.....	.....	(2.6)
Borrowings	(0.7)	.....	.....	(2.4)	.....	.....	.....	(3.1)
Finance leases	.....	.....	.....	(0.1)	.....	.....	.....	(0.1)
Deferred tax	(0.4)	.....	.....	.....	.....	.....	.....	(0.4)
Maintenance reserves	(0.9)	(0.6)	.....	.....	.....	.....	.....	(1.5)
Net (liabilities)/assets	(1.4)	(11.5)	(2.1)	1.7	(6.8)	1.4	(0.3)	(19.0)
Goodwill								208.7
Consideration								**189.7**

The principal fair value adjustment made was in respect of the book value of debtors acquired with Direct Holidays. The main elements of this adjustment are the write off of deposits and start up costs in connection with Direct Cruises.

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

(£M)	Twickenham	Sun International	Direct Holidays	Panorama Holidays	Vacation Express	Total
Cash	10.9	66.4	67.3	10.5	14.3	169.4
Shares issued	.....	.....	.....	7.2	.....	7.2
Contingent consideration	.....	.....	9.5	.....	.....	9.5
Loan assumed	(5.2)	.....	.....	.....	.....	(5.2)
Loan notes	.....	.....	3.9	.....	.....	3.9
Costs	0.1	3.4	0.9	0.2	0.3	4.9
	5.8	**69.8**	**81.6**	**17.9**	**14.6**	**189.7**

The cash outflow arising in respect of acquisitions in the year comprises the following:

(£M)	
Cash consideration	169.4
Amounts outstanding at the year end	(14.3)
Contingent consideration paid into escrow	9.5
Net cash outflow from acquisitions of subsidiary undertakings	**164.6**

The contingent consideration of £9.5m paid into escrow and £0.5m of the loan notes issued in connection with the acquisition of Direct Holidays is being held as security in the event that Direct Holidays' profit before tax for the year ended 30th September 1999 is less than that warranted by the shareholders of Direct Holidays at the time of the acquisition.

On 9th September 1998 the Group disposed of its interests in Sunwing Gambia Limited and African Hotels Limited to Consulting Hotelero Balear SL for a consideration of £1.2m (see note 31).

Notes to the Financial Statements

Note 11 continued: Fixed asset investments

Joint venture undertakings

As a consequence of the implementation of Financial Reporting Standard Number 9, 'Associates and Joint Ventures', joint venture undertakings have been accounted for under the gross equity method for the first time in the year ended 30th September 1998 and prior year comparatives have been restated accordingly.

The investment in joint venture undertakings at 30th September 1998 represents a 50% equity interest in Il Ponte SpA which now holds a 99.9% equity interest in Costa Crociere SpA, an Italian cruise operator, formerly listed on the Italian Stock Exchange, a 50% equity interest in Tenerife Sol SA, a non-listed hotel operator, incorporated and operating in Spain and a 29.03% interest in Frosch Touristik GmbH ('FTI') a German tour operator, which, together with an option to acquire the balance in 2002, was acquired on 13th May 1998. In addition the Group holds, through its wholly owned subsidiary undertaking Carousel Holidays Limited, a 50% share in a vacation ownership resort, Lake Eve Florida General Partnership.

(£M)	Total
The total consideration in respect of the acquisition of FTI is arrived at as follows:	
Share of net liabilities acquired	*(0.3)*
Goodwill on acquisition	*19.9*
Total consideration	***19.6***
Represented by	
Cash	*17.0*
Costs	*2.6*
	19.6

All the goodwill arises on the Group's interest in FTI.

The amount paid for the initial investment in FTI of DM50m may increase up to a maximum of DM110m dependent upon the achievement of pre-determined profit targets for the years ending 31st October 1998 and 1999. If the option to acquire the remaining balance of the company is exercised in 2002, a further cash payment of DM60m will be made at that time. The total consideration for the company will then be determined in 2004 by the application of a formula based upon the pre-tax profits of FTI in each of the financial years ending 31st October 1998, 2001 and 2003. The total consideration payable by the Company, inclusive of the earlier instalments, would be between DM310m and DM910m.

No adjustments have been required to the provisional negative goodwill figure of £14.5m arising from the Group's interest in Costa, acquired in June 1997, as set out in the financial statements for the year ended 30th September 1997.

(£M)	1998	1997
The Group's share of Costa's trading results are made up as follows:		
Turnover	***202.8***	*66.1*
Profit before tax	***21.0***	*5.1*
Tax	***(2.0)***	*(0.6)*
Profit after tax	***19.0***	*4.5*

The 1997 trading results are based on the period from 13th June 1997, being the date of acquisition of Costa.

Notes to the Financial Statements

Note 11 continued: Fixed asset investments

The Group's share of its joint ventures' net assets at 30th September 1998 of £69.2m (1997: £51.2m) is made up as follows:

(£M)	Total 1998	Total 1997	Costa 1998	Costa 1997	Others 1998	Others 1997
Fixed assets	**323.9**	308.4	**300.6**	290.0	**23.3**	18.4
Current assets	**91.9**	41.8	**65.0**	38.8	**26.9**	3.0
Gross assets	**415.8**	350.2	**365.6**	328.8	**50.2**	21.4
Liabilities due within one year	**(107.5)**	(63.8)	**(76.8)**	(60.3)	**(30.7)**	(3.5)
Liabilities due after one year	**(239.1)**	(235.2)	**(226.3)**	(225.0)	**(12.8)**	(10.2)
Total net assets	**69.2**	51.2	**62.5**	43.5	**6.7**	7.7

(£M)	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Other investments				
Other investments at net book value include:				
Investments listed on a recognised investment exchange	.....	0.1	.....	0.1
Miscellaneous trade investments	**0.8**	0.7	.....	.....
	0.8	0.8	.....	0.1

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

12. Stocks (£M)

	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Vacation ownership apartments held for resale	**8.0**	.....	.....	.....
Goods held for resale	**6.8**	3.1	**1.8**	0.6
Consumables	**2.2**	3.3	.....	.....
	17.0	6.4	**1.8**	0.6

13. Debtors: amounts falling due within one year (£M)

	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Trade debtors	**72.9**	41.8	**6.4**	4.9
Amounts owed by subsidiary undertakings	.....	.....	**478.0**	275.1
Amounts owed by joint venture and associated undertakings	**7.5**	61.3	**6.9**	59.5
Current tax	.....	.....	**2.2**	.....
Other debtors	**42.4**	27.7	**7.9**	7.5
Deposits and prepayments	**172.3**	101.4	**55.2**	41.8
	295.1	232.2	**556.6**	388.8

14. Debtors: amounts falling due after one year (£M)

	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Advance corporation tax recoverable	.....	.....	.....	4.0
Other debtors	**25.9**	22.1	.....	.....
Deposits and prepayments	**92.8**	77.4	**76.8**	57.0
	118.7	99.5	**76.8**	61.0

Notes to the Financial Statements

15. Current asset investments (£M)

	The Group 1998	1997
At 1st October	**10.9**	9.7
Additions	**16.0**	9.5
	26.9	19.2
Disposals	**(15.8)**	(8.3)
At 30th September	**11.1**	10.9
Current asset investments comprise:		
Listed:		
UK government securities	.....	1.4
Other UK investments	**11.1**	7.0
Investments listed overseas	.....	1.1
	11.1	9.5
Unlisted:		
Deposits	.....	1.4
	11.1	10.9

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

16. Cash and deposits (£M)

	The Group 1998	1997	The Company 1998	1997
Cash at bank and in hand	**145.3**	207.0	**27.8**	73.4
Term deposits	**218.9**	199.6	**196.4**	178.7
	364.2	406.6	**224.2**	252.1

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

17. Creditors: amounts falling due within one year (£M)

	The Group 1998	1997	The Company 1998	1997
Loans and overdrafts (see note 18)	**6.9**	0.6	**3.4**	.....
Trade creditors	**286.2**	248.9	**49.4**	45.9
Amounts owed to subsidiary undertakings	.....	.....	**494.5**	426.3
Amounts owed to joint venture undertakings	**0.3**	0.2	**0.2**	0.1
Current tax	**23.1**	16.1	.....	1.7
Social security and other taxes	**11.4**	7.0	**3.3**	2.8
Other creditors	**71.7**	31.8	**25.1**	8.4
Dividends	**28.5**	23.7	**28.5**	23.7
Accruals and deferred income	**128.0**	89.3	**29.8**	30.2
Amounts due under finance leases (see note 18)	**0.2**	0.6	.....	.....
Revenue received in advance	**245.7**	199.4	**103.7**	100.5
	802.0	617.6	**737.9**	639.6

Notes to the Financial Statements

18. Creditors: amounts falling due after one year (£M)

	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Loans (see below)	**86.2**	86.0	**49.4**	48.9
Trade creditors	**0.7**	0.9	.....	.....
Other creditors	**17.0**	4.1	**9.5**	.....
Accruals and deferred income	**29.4**	33.9	**17.0**	10.5
Amounts due under finance leases (see below)	**4.9**	5.5	.....	.....
	138.2	130.4	**75.9**	59.4
Loans and overdrafts				
Bank loans	**86.0**	83.9	**48.9**	48.9
Other loan	**0.3**	.....	.....	.....
Overdrafts	**1.3**	.....	.....	.....
Unsecured loan notes	**5.5**	2.7	**3.9**	.....
	93.1	86.6	**52.8**	48.9
Less: amounts falling due within one year	**(6.9)**	(0.6)	**(3.4)**	.....
Amounts falling due after one year	**86.2**	86.0	**49.4**	48.9
Analysis of repayments				
Between one and two years	**37.3**	2.1	.....	.....
Between two and five years	**48.9**	83.9	**49.4**	48.9
	86.2	86.0	**49.4**	48.9

Of the bank loans £51.0m are unsecured sterling loans, of which £48.9m has a floating interest rate, repayable on 21st April 2002 and £2.1m is a fixed interest rate loan repayable on 31st March 1999. £35.0m is an unsecured loan, with a floating interest rate, denominated in Greek Drachma, repayable on 5th July 2000. The capital repayment is hedged and the loan is stated at the hedged rate. The difference between the sterling equivalent at the spot rate on the date of draw down and the hedged rate is included in accruals and deferred income and released to interest income over the term of the loan.

Of the £5.5m unsecured loan notes, £3.9m were issued by the Company in connection with the acquisition of Direct Holidays PLC in July 1998. £0.5m of the loan notes carry no interest until December 1999, when in common with the other £3.4m of the loan notes, interest is payable at 35 basis points below the base lending rate of Barclays Bank plc. The interest rate on the unsecured loan notes of £1.6m, issued in connection with the acquisition of Winston Rees (World) Travel Limited by Going Places Leisure Travel Limited in 1994, is payable at bank base rate.

(£M)	The Group 1998	The Group 1997
Finance leases		
Total outstanding	**5.1**	6.1
Less: amounts falling due within one year	**(0.2)**	(0.6)
Amounts falling due after one year	**4.9**	5.5
Analysis of repayments		
Between one and two years	**0.8**	0.1
Between two and five years	**2.7**	2.7
After five years	**1.4**	2.7
	4.9	5.5

Notes to the Financial Statements

19. Provisions for liabilities and charges (£M)

	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Deferred tax	**44.0**	33.0	**2.2**	0.5
Other provisions	**48.9**	48.2	.....	.....
	92.9	81.2	**2.2**	0.5

Deferred tax (£M)	The Group	The Company
At 1st October 1997	33.0	0.5
Charged during the year	7.5	1.0
Acquired with subsidiary undertaking	0.4	.....
Exchange differences	(1.7)	.....
Advance corporation tax	4.8	0.7
At 30th September 1998	**44.0**	**2.2**

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

(£M)	Provided 1998	Provided 1997	Potential 1998	Potential 1997
The Group				
Accelerated capital allowances	**37.1**	35.8	**44.0**	35.8
Short term timing differences	**7.1**	2.2	**7.1**	2.2
	44.2	38.0	**51.1**	38.0
Less: advance corporation tax	**(0.2)**	(5.0)	**(0.2)**	(5.0)
	44.0	33.0	**50.9**	33.0

(£M)	Provided 1998	Provided 1997	Potential 1998	Potential 1997
The Company				
Accelerated capital allowances	**1.8**	0.7	**1.8**	0.7
Short term timing differences	**0.6**	0.8	**0.6**	0.8
	2.4	1.5	**2.4**	1.5
Less: advance corporation tax	**(0.2)**	(1.0)	**(0.2)**	(1.0)
	2.2	0.5	**2.2**	0.5

Other provisions (£M)	Total	Pension provisions	Aircraft maintenance provisions
At 1st October 1997	48.2	5.7	42.5
Provided during the year	15.8	0.7	15.1
Acquired with subsidiary undertaking	1.5	.....	1.5
	65.5	6.4	59.1
Utilised in the year	(16.3)	(0.1)	(16.2)
Exchange differences	(0.3)	(0.4)	0.1
At 30th September 1998	**48.9**	**5.9**	**43.0**

Notes to the Financial Statements

20. Share capital (£m)

	1998	1997
Authorised		
51,569,480 (1997: 35,516,527) unclassified shares of 20p each	10.3	7.1
Nil (1997: 28,732,688) 6.375p (net) convertible cumulative preference shares of 20p each	.....	5.8
633,136,040 (1997: 205,450,520) ordinary shares of 10p each	63.3	20.5
	73.6	33.4
Allotted, called up and fully paid		
Nil (1997: 28,732,688) 6.375p (net) convertible cumulative preference shares of 20p each	.....	5.8
474,684,480 (1997: 142,668,371) ordinary shares of 10p each	47.5	14.2
	47.5	20.0

Authorised share capital

At the Company's Annual General Meeting held on 22nd January 1998 the Company's authorised share capital was increased to £73,627,500 by the creation of 402,326,050 new ordinary shares of 10p each.

Furthermore, as a result of the consolidations, sub-divisions and redemptions referred to below in relation to the conversion during the year of 28,732,688 convertible cumulative preference shares of 20p each, being all of those remaining in issue at 30th September 1997, the number of authorised convertible cumulative preference shares was reduced to nil, the number of authorised ordinary shares of 10p each increased by 25,359,470 and the number of authorised unclassified shares of 20p each increased by 16,052,953.

Preference shares

The convertible cumulative preference shares were non-equity shares which carried an entitlement to a dividend at the rate of 6.375p (net) per share per annum. These have now all been converted into fully paid ordinary shares pursuant to the Company's Articles of Association.

Allotments during the year

Prior to the Capitalisation Issue 20,000 ordinary shares were allotted under the terms of the Airtours plc Share Option Scheme (1986) for an aggregate cash consideration of £89,700 and 3,426 ordinary shares were allotted under the terms of the Airtours plc Savings-Related Share Option Scheme for an aggregate cash consideration of £11,384.

On 22nd January 1998 £28.5m was capitalised from the Company's share premium account and used to issue 285,383,594 new ordinary shares at par. These shares were issued, credited as fully paid, to shareholders in the proportion of two new ordinary shares for every ordinary share held. As a consequence of the Capitalisation Issue, the number of ordinary shares which were the subject of existing options under the Airtours plc Share Option Scheme (1986) and the Airtours plc Savings-Related Share Option Scheme and the exercise price of such options were adjusted.

On 8th June 1998 a total of 24,216,007 convertible cumulative preference shares of 20p each, in respect of which conversion notices had been given pursuant to the Company's Articles of Association, were consolidated and sub-divided into 21,373,047 ordinary shares of 10p each and 270,589,670 non-voting deferred shares of 1p each.

On 28th July 1998, 18,496,875 ordinary shares were allotted pursuant to a placing (principally by way of vendor placing), at £4.30 per share, made in connection with the acquisition of Direct Holidays PLC.

As a consequence of the conversion referred to above 91.07% of the originally issued convertible cumulative preference shares had been converted. The Company exercised its right under its Articles of Association requiring the remaining holders of convertible cumulative preference shares to convert.

On 5th August 1998 a total of 4,516,681 convertible cumulative preference shares of 20p each, being the remaining convertible cumulative preference shares in issue, were consolidated and sub-divided into 3,986,422 ordinary shares of 10p each and 50,469,400 non-voting deferred shares of 1p each pursuant to the Company's Articles of Association. On 3rd September 1998 the Company gave notice, in accordance with its Articles of Association, to redeem for 1p in aggregate the 50,469,400 non-voting deferred shares of 1p each and the 270,589,670 non-voting deferred shares of 1p each referred to above.

Subsequent to the Capitalisation Issue and prior to 30th September 1998, a further 361,620 ordinary shares were allotted under the terms of the Airtours plc Share Option Scheme (1986) for an aggregate cash consideration of £510,387 and 77,889 ordinary shares were allotted under the terms of the Airtours plc Savings-Related Share Option Scheme for an aggregate cash consideration of £79,733.

On 29th September 1998, 137,244 ordinary shares were allotted to Airtours Quest Trustee Limited for a consideration of £446,043.

On 30th September 1998, 2,175,992 ordinary shares were allotted in part consideration of the acquisition of Panorama Holiday Group Limited.

Notes to the Financial Statements

Note 20 continued: Share capital

Contingent rights to the allotment of shares

The Company has not granted any new share options during the year. At 30th September 1998 the following options to subscribe for ordinary shares of 10p each were outstanding:

Date of grant	Option price	Airtours plc Share Option Scheme (1986) Class 1	Airtours plc Share Option Scheme (1986) Class 2	Airtours plc SAYE Scheme
5th July 1991	38.56p	.....	243,240	.....
9th August 1993	124.64p	.....	823,977	.....
9th August 1993	91.70p	.....	.....	1,844,690
5th August 1994	149.50p	450,000	2,715,000	.....
14th July 1995	135.67p	.....	900,000	.....
16th July 1995	136.33p	.....	150,000	.....
10th January 1997	194.70p	.....	.....	3,432,336

The number of ordinary shares under option and the option prices at which they are exercisable have been restated to take account of the Capitalisation Issue to existing shareholders in 1998. Options are normally exercisable in the period between the earliest exercise date (being three years from the date of grant in the case of Class 1 options and five years from the date of grant in the case of Class 2 options) and ten years following the date of grant. SAYE options are normally exercisable in the period between five years and five years and six months following the commencement date of the savings contract related to the relevant option.

The exercise of Class 2 options is dependent upon the percentage increase in earnings per share of the Company calculated over any six consecutive accounting periods from (and including) the base year (being the most recent accounting period ending on a date prior to the grant date of such Class 2 options) being equal to or greater than the percentage increase in earnings per share for the same period of the constituent company which, in terms of earnings per share growth for the same period, ranks as the lowest of the top quartile in the FTSE 100 Index. The constituent companies are those companies that at all times during such six consecutive accounting periods have been members of the FTSE 100 Index.

21. Reserves (£M)

	Share premium account	Capital redemption reserve	Other reserves	Profit and loss account
The Group				
At 1st October 1997	178.4	3.7	.....	43.7
Transfer to other reserves	(149.9)	(3.7)	153.6	.....
Transfer of goodwill previously written off against profit and loss account	.....	.....	(153.6)	153.6
Retained profit for the year	.....	.....	.....	70.5
Goodwill written off (see note 11)	.....	.....	.....	(228.6)
Premium on allotments during the year	84.6	.....	.....	.....
Transfer in respect of QUEST	.....	.....	.....	(0.3)
Capitalisation Issue	(28.5)	.....	.....	.....
Transfer on redemption of convertible cumulative preference shares	.....	3.2	.....	.....
Exchange differences	.....	.....	.....	(9.3)
At 30th September 1998	**84.6**	**3.2**	.....	**29.6**
The Company				
At 1st October 1997	178.4	3.7	.....	196.5
Transfer to other reserves	(149.9)	(3.7)	153.6	.....
Retained loss for the year	.....	.....	.....	(11.5)
Premium on allotments during the year	84.6	.....	.....	.....
Transfer in respect of QUEST	.....	.....	.....	(0.3)
Capitalisation Issue	(28.5)	.....	.....	.....
Transfer on redemption of convertible cumulative preference shares	.....	3.2	.....	.....
At 30th September 1998	**84.6**	**3.2**	**153.6**	**184.7**

Notes to the Financial Statements

Note 21 continued: Reserves

During the year ended 30th September 1998, the Company received £0.4m from the issue of shares in respect of the exercise of options under the Airtours plc Savings-Related Share Option Scheme administered by the Qualifying Share Ownership Trust (QUEST). Employees paid £0.1m to the Company for the issue of these shares and the balance of £0.3m comprised contributions to the QUEST from the Company and is shown as a transfer from the profit and loss account reserve to the share premium account.

Following the passing of a special resolution at the Company's 1998 Annual General Meeting cancelling the Company's share premium account and capital redemption reserve, the Company applied to and obtained from the High Court an order confirming the cancellation of the share premium account and capital redemption reserve. Accordingly the amount previously credited to the share premium account at 6.00pm on 21st January 1998, as reduced by the sum capitalised pursuant to the Capitalisation Issue, and the amount previously credited to the capital redemption reserve at 22nd January 1998 have been transferred to other reserves.

Of the Company's reserves £184.7m (1997: £196.5m) are regarded as distributable.

The cumulative amount of goodwill arising from acquisitions in current and prior years which has been written off to Group reserves amounts to £424.2m (1997: £195.6m).

22. Reconciliation of movements in shareholders' funds (£M)

	1998	1997
Profit for the financial year	**106.7**	90.5
Dividends	**(36.2)**	(31.1)
	70.5	59.4
Exchange differences	**(9.3)**	(20.6)
Issue of shares (net of expenses)	**86.5**	1.3
Goodwill written off to reserves	**(228.6)**	(1.5)
Net (decrease)/increase in shareholders' funds	**(80.9)**	38.6
Shareholders' funds at 1st October	**245.8**	207.2
Shareholders' funds at 30th September	**164.9**	245.8

23. Net cash inflow from operating activities (£M)

	1998	1997
Operating profit	**102.8**	98.9
Depreciation charges	**37.0**	32.3
Profit on sale of subsidiary undertakings	**(1.4)**	.....
Profit on sale of tangible fixed assets	.....	(0.1)
Loss on sale of investments	.....	0.1
Increase in stocks	**(8.5)**	(0.5)
Increase in debtors	**(68.8)**	(38.0)
Increase in creditors	**37.8**	55.4
(Decrease)/increase in provisions	**(0.5)**	7.8
Net cash inflow from operating activities	**98.4**	155.9

The cash flow effect of the subsidiary undertakings acquired and disposed of during the year is set out in note 26 to the financial statements on page 64.

Notes to the Financial Statements

24. Reconciliation of net cash flow to movement in net funds (£M)

	1998	1997
(Decrease)/increase in cash in the year	(59.1)	107.5
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	2.6	(7.1)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	19.5	(113.1)
Changes in net debt resulting from cash flows	(37.0)	(12.7)
Loans and finance leases acquired with subsidiary undertakings	(3.2)	.....
Loan notes issued in year	(3.9)	.....
Loss on sale of current asset investments	.....	(0.1)
Exchange differences	(3.6)	(11.0)
Movement in net funds in the year	(47.7)	(23.8)
Net funds at 1st October	324.8	348.6
Net funds at 30th September	**277.1**	324.8

25. Analysis of net funds (£M)

	At 1st October 1997	Cash inflow/ (outflow)	Acquisitions	Other non-cash changes	Exchange movements	At 30th September 1998
Cash at bank and in hand	207.0	(57.8)	.....	.....	(3.9)	145.3
Term deposits	199.6	19.3	.....	.....	.....	218.9
Cash and deposits	406.6	(38.5)	.....	.....	(3.9)	364.2
Overdrafts	.....	(1.3)	.....	.....	.....	(1.3)
Debt due within one year	(0.6)	1.9	(2.9)	(4.0)	.....	(5.6)
Debt due after one year	(86.0)	.....	(0.2)	0.1	(0.1)	(86.2)
Finance leases	(6.1)	0.7	(0.1)	.....	0.4	(5.1)
Current asset investments	10.9	0.2	.....	.....	.....	11.1
	324.8	(37.0)	(3.2)	(3.9)	(3.6)	277.1

26. Effects of acquisitions and disposals (£M)

	Acquisitions			Disposals	
	Sun International	Direct Holidays	Twickenham	Sunwing Gambia and African Hotels	Total
The subsidiary undertakings acquired and disposed of during the year made the following contributions to Group cash flow:					
Cash inflow/(outflow) from operating activities	32.6	(4.2)	(7.9)	(0.9)	19.6
Returns on investments and servicing of finance	0.1	0.1	(0.3)	.....	(0.1)
Tax	(4.1)	(0.4)	.....	(0.1)	(4.6)
Capital expenditure and financial investment	(2.5)	(0.1)	(0.3)	(0.1)	(3.0)
Financing	(0.6)	.....	.....	0.1	(0.5)
Increase/(decrease) in cash in the period	25.5	(4.6)	(8.5)	(1.0)	**11.4**

Panorama Holiday Group Limited was acquired on 30th September 1998 and accordingly made no contributions to Group cash flow during the year.

27. Capital commitments (£M)

	The Group		The Company	
	1998	1997	1998	1997
Contracted but not provided in these financial statements	3.1	1.2	.....	1.1

In addition to those noted above the Group's share of the capital commitments of Costa and FTi at 30th September 1998 is £122.8m (1997: nil) and £0.7m (1997: not applicable) respectively.

Notes to the Financial Statements

28. Contingent liabilities and guarantees

At 30th September 1998 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 £506.6m (1997: £255.0m). 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.

29. Pensions

Employees of the Company, Going Places Leisure Travel Limited and Airtours International Airways Limited participate in the Company's defined contribution pension scheme. The total pension charge for the year amounted to £3.1m (1997: £2.5m). No amounts were outstanding at the year end.

The Group also operates a number of defined benefit pension schemes, principally in Sweden and Norway. The total pension charge for the year amounted to £5.5m (1997: £3.7m). 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.

30. Leasing commitments (£M)

	Land & buildings 1998	Land & buildings 1997	Aircraft & aircraft spares 1998	Aircraft & aircraft spares 1997	Other 1998	Other 1997
Operating lease payments which are due within one year are as follows:						
The Group						
Expiring in one year or less	**5.1**	6.6	**4.9**	8.6	**0.2**	0.3
Expiring between one and five years	**9.6**	12.0	**58.5**	29.2	**3.6**	2.3
Expiring in five years or more	**21.7**	16.4	**24.0**	37.2	**5.2**	5.2
	36.4	35.0	**87.4**	75.0	**9.0**	7.8
The Company						
Expiring in one year or less	.....	.....	.....	.....	.....	0.1
Expiring between one and five years	**0.2**	0.2	.....	.....	**2.1**	1.0
Expiring in five years or more	.....	0.2	.....	.....	**5.2**	5.2
	0.2	0.4	.....	.....	**7.3**	6.3

31. Related party transactions

During the year Airtours Holidays and Scandinavian Leisure Group purchased hotel accommodation amounting to £0.7m (1997: £1.1m) from Tenerife Sol, a joint venture undertaking. At 30th September 1998 the outstanding balances payable to Tenerife Sol amounted to £0.1m (1997: £0.1m). In addition, Airtours Holidays purchased cabin accommodation and other cruise services from Carnival Cruises, a company in which Mr M M Arison, who is a non-executive director in the Company, is interested by virtue of his shareholding in Carnival Corporation the parent undertaking of Carnival Cruises, and Costa Cruises, a subsidiary undertaking of Il Ponte SpA, a joint venture undertaking, amounting to £4.3m and £0.6m respectively during the year (1997: £2.3m and nil respectively). At 30th September 1998 the outstanding amounts payable to Carnival and to Costa amounted to £0.5m (1997: £0.3m) and £0.1m (1997: nil) respectively.

During the year Going Places sold holidays operated by Costa and Carnival amounting to £0.5m and £0.2m respectively (1997: £0.5m each). At 30th September 1998 the outstanding balances payable to Costa amounted to £0.1m (1997: £0.1m). No amounts were outstanding to Carnival (1997: nil).

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

Notes to the Financial Statements

Note 31 continued: Related party transactions

In the year ended 30th September 1998 an amount of £0.8m (1997: £0.2m) became due to subsidiaries of the Company from Lake Eve Development, a joint venture undertaking, in respect of services supplied by certain employees of the Group. At 30th September 1998 no amounts were outstanding to the Group (1997: £0.1m).

During the year Il Ponte SpA was loaned £6.9m by the Company. Subsequently both this loan and the amount advanced in the previous financial year were repaid to the Company. At 30th September 1998 an amount of £2.3m was outstanding in respect of the financing of the acquisition of Costa (1997: £61.2m). During the year the Company loaned £1.5m and £3.5m respectively to Lake Eve Development and Frosch Touristik GmbH, a joint venture undertaking. Both amounts were outstanding at the year end (1997: nil). During the year Scandinavian Leisure Group purchased flight capacity amounting to £7.8m (1997: £5.2m) from Braathens ASA, a company listed on the Norwegian Stock Exchange, in which Mr P Braathen, an officer of various Group companies, is interested by virtue of being Chairman and a major shareholder of two companies that between them control 39% of the shares in Braathens ASA. No amounts were outstanding at 30th September 1998 (1997: nil).

On 9th September 1998 Scandinavian Leisure Group disposed of its interests in Sunwing Gambia Limited and African Hotels Limited to Consulting Hotelero Balear SL, a joint venture undertaking of FTI, which is itself a joint venture undertaking of the Group, for a consideration of £1.2m.

32. Post balance sheet events

On 24th November 1998 the Company announced that it is raising £250m before expenses by way of an offering of subordinated convertible bonds due 2004. The proceeds will be used to enable the Company to enlarge its operations as suitable acquisition opportunities arise. Full details of the offer are included in a prospectus addressed to shareholders.

33. Principal subsidiary and joint venture undertakings

At 30th September 1998 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	
	Scandinavian Leisure Group AB	Sweden		100
	Canadian Leisure Group Limited	Canada		100
	Sunquest Holidays Inc	USA		100
	SunTrips Inc	USA		100
	V E Holdings Inc	USA		100
	Vingresor AB	Sweden		100
	Always AB	Sweden		100
	Ving Norge AS	Norway		100
	Saga Solreiser AS	Norway		100
	Ving A/S	Denmark		100
	Spies A/S	Denmark		100
	Tjaereborg Reiser A/S	Denmark		100
	Oy SLG Holdings AB	Finland		100
	Sunair NV	Belgium		100
	Sun International Holidays NV	Belgium		100
	Sun Reizen NV	Belgium		100
	Sunair Sarl	France		100
	Voyage Conseil SA	France		100
	Frosch Touristik GmbH	Germany		29.03
	Unitravel Beheer BV	Holland		100

Notes to the Financial Statements

Note 33 continued: Principal subsidiary and joint venture undertakings

		Country of incorporation and operation	Proportion held by parent Company (%)	Proportion held by the Group (%)
Hotel operators	Sunwing AB	Sweden		100
	Hoteles Sunwing SA	Spain		100
	Sunwing Hotels Hellas SA	Greece		100
	Sunwing Hotels (Cyprus) Limited	Cyprus		100
	Tenerife Sol SA	Spain		50
Cruise operators	Costa Crociere SpA	Italy		49.96
	Sun Cruises Limited	England	100	
Airlines	Air Belgium International NV	Belgium		65
	Airtours International Airways Limited	England		100
	Premiair A/S	Denmark		100
Travel retailers	Going Places Leisure Travel Limited	England		100
	Late Escapes Limited	England		100
Agency companies	Eurosites A/S	Denmark		100
	Eurosites GmbH	Germany		100
	Eurosites BV	Holland		100
	Eurosites Vacances SA	France		100
	Viagens Astral SA	Portugal		100
	Viajes Astral SA	Spain		100
	Viajes Astral Canarias SA	Spain		70
	Viajes Astral Hellas SA	Greece		70
Vacation ownership	Anfinpan SL	Spain		100
	Lake Eve Development	USA		50
Insurance company	White Horse Insurance Limited	Guernsey		100
Investment and/or holding companies	Airtours Finance Limited	Guernsey		100
	Airtours Resort Ownership Espana SL	Spain		100
	Blue Sea Investments Limited	England	100	
	Blue Sea (Overseas) Investments Limited	England		100
	The BTN Finance Company	England		50
	Carousel Holidays Limited	England	100	
	CLG Holdings Inc	Canada		100
	Il Ponte SpA	Italy	50	
	Parkway Holdings BV	Holland		100
	Scandinavian Leisure Group Holdings AB	Sweden		100
	Scandinavian Leisure Group Leasing A/S	Norway		100
	Sun International NV	Belgium		100
	Sun International (UK) Limited	England		100
	UKLG Limited	England	100	

Shareholder Information

Analysis of ordinary shareholders

At 30th September 1998 there were 5,565 shareholders registered compared with 3,313 at 30th September 1997.

Category	Number of holders	Ordinary shares held
Individuals	4,350	63,944,626
Carnival (UK) Limited	1	123,344,501
Life/Insurance funds	42	69,813,898
Pension funds	234	118,416,369
Unit trusts	57	27,114,075
Investment trusts	7	5,065,092
Overseas funds	87	40,756,374
Other	787	26,229,545
	5,565	474,684,480

Financial calendar

First quarter results announced	18th February 1998
Half yearly preference dividend paid	1st April 1998
Interim results announced	27th May 1998
Interim ordinary dividend paid	1st July 1998
Third quarter results announced	12th August 1998
Final preference dividend paid	1st July 1998
Final results announced	24th November 1998
Transfer books closed	5th February 1999
Annual General Meeting	11th February 1999
Final ordinary dividend payable	6th April 1999

Shareholders' benefits

Concessionary discounts

Individual registered holders of shares in the Company are eligible for concessionary discounts of 10% against the published price of holidays from any of the following brochures: Airtours Holidays, Aspro, EuroSites, Cresta, Bridge, Tradewinds, Direct Holidays Cruises and Panorama. In addition, provided bookings are made at least 28 days prior to departure, certain other offers exclusive to shareholders may apply. To obtain information on these other offers and to obtain the discount, which cannot be taken in conjunction with any other offer or promotion, the holiday booking should be made through the shareholders' holiday advice telephone line on 0161 908 7955. Shareholders will need to quote their name and shareholder number as shown on their share certificate. There is no minimum shareholding requirement.

Low-cost share dealing service

This service offered by Hoare Govett allows shareholders to buy and sell the Company's shares in a simple and low cost manner. For further details contact Hoare Govett Corporate Finance Limited, 4 Broadgate, London EC2M 7LE or for a brochure telephone 0171 601 0101.

Personal equity plans (PEPs)

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

Shareholder enquiries

The Company's share register is maintained by Bank of Scotland, Registrar Services, Apex House, 9 Haddington Place, Edinburgh EH7 4AL.

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, Bank of Scotland, at the address noted above or through their shareholder telephone helpline on 0870 601 5366.

Five Year Review

(£M)	1998	1997	1996	1995	1994
Profit and loss account					
Group turnover	**2,753.4**	2,235.6	1,776.2	1,376.4	1,025.4
Profit on ordinary activities before tax	**140.3**	120.3	86.8	59.4	71.3
Tax on profit on ordinary activities	**33.3**	29.6	21.7	16.4	21.7
Profit for the financial year	**106.7**	90.5	64.9	43.0	49.4
Dividends	**36.2**	31.1	24.9	19.3	16.9
Profit retained	**70.5**	59.4	40.0	23.7	32.5
Balance sheet					
Tangible fixed assets	**321.4**	267.8	256.4	197.9	109.1
Investments	**82.7**	63.0	16.2	9.7	7.5
Cash and deposits	**364.2**	406.6	425.6	304.5	291.9
Stocks	**17.0**	6.4	6.8	3.6	2.7
Debtors	**413.8**	331.7	235.9	168.6	163.5
Creditors	**940.2**	748.0	670.0	514.7	402.0
Provisions for liabilities and charges	**92.9**	81.2	63.4	50.7	35.6
Net assets	**166.0**	246.3	207.5	118.9	137.1
Statistics					
Basic earnings per share	**24.08p**	21.27p	16.41p	11.65p	15.39p
Fully diluted earnings per share	**22.98p**	19.68p	15.21p	10.92p	13.93p
Dividend per ordinary share	**7.50p**	6.67p	5.33p	4.67p	4.00p
Net assets per ordinary share	**34.98p**	57.54p	50.95p	34.37p	40.20p
Ratios					
Dividend cover	**3.21**	3.19	3.08	2.50	3.85

Note: The figures for earnings, dividend and net assets per share in earlier years have been restated to take account of the Capitalisation Issue to existing shareholders in 1998.

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