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The HOLIDAY Makers

Airtours

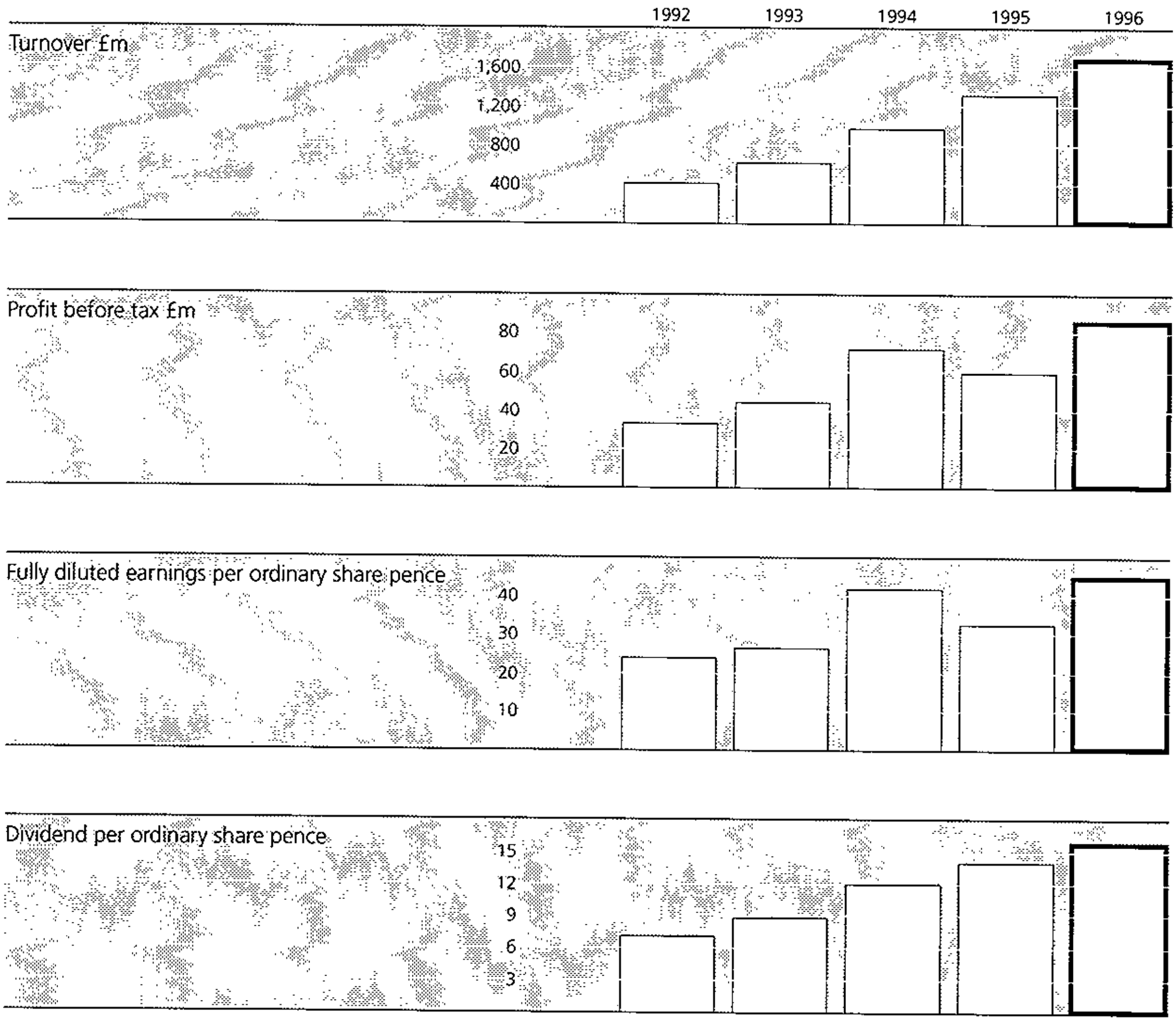
Annual report and accounts 1996

With approximately five million passengers the Airtours Group is now the largest air inclusive tour operator in the world.

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

Index

Financial highlights



David Crossland

Chairman's statement

Results I am pleased to report that the Group has increased profits in all of its markets, with profit before tax for the year increasing by 46.1% to £86.8m and fully diluted earnings per share by 39.3% to 45.63p. The record profit arises from a combination of excellent results from our Scandinavian businesses and careful management of pricing policies in the UK in an environment of reduced industry capacity. This profit includes a credit of £1.7m as a result of a change in accounting policy which is explained in the financial and operating review.

Carnival In April 1996, Carnival Corporation of the United States acquired 29.54% of the ordinary share capital and 7.50% of the preference share capital of the Company. This was achieved by means of a partial offer to existing shareholders and a subscription for new ordinary shares which, after the deduction of expenses, raised new capital of £97.9m.

Carnival are world leaders in the cruise industry and bring to the Group a wealth of knowledge which will be of great help in the development of our cruise interests and expansion in North America.

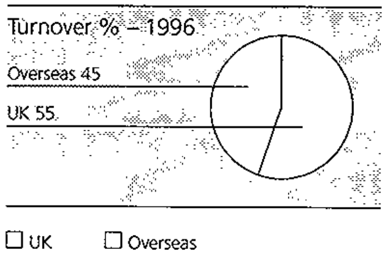
Strategy Three years ago we concluded that in order to maintain our rate of growth we would need to develop our business overseas. At that time we stated our objectives of achieving, in the medium term, an even split of profits between UK and overseas businesses.

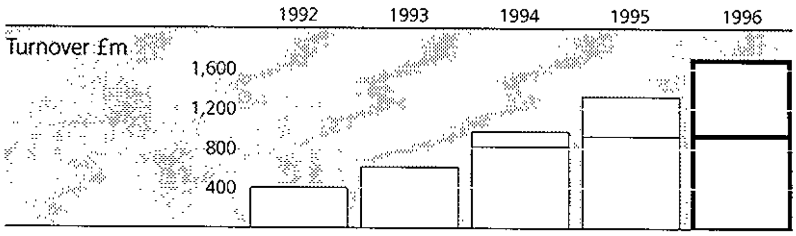
Our move into overseas markets began with the acquisition of the Scandinavian Leisure Group (SLG) in 1994 followed a year later by the acquisition of Sunquest Vacations (Sunquest) in Canada. In 1996 we strengthened our positions in Scandinavia and North America by the acquisition of Simon Spies Holding A/S (Spies) and Alba Tours International Inc (Alba) respectively.

In a short period of time, Airtours has transformed itself from a purely UK based company into an internationally diversified leisure group which is now the largest air inclusive tour operator in the world.

The growth of the Group continues to produce economies of scale and by managing capacity across our different markets we obtain the maximum utilisation of our aircraft, cruise ships and hotels.

Our strategy for future growth is relatively straightforward. We shall seek to develop or acquire businesses operating in markets which we understand, where we can add value and





where the acquired business has high quality management or alternatively can be readily integrated into our existing management infrastructures. We believe there will be significant opportunities for further expansion which we shall exploit as they arise.

One such business where we believe that we can add value is timeshare development. Subject to the success of our recently announced first venture in Orlando, Florida, we will extend this business into other principal destination areas.

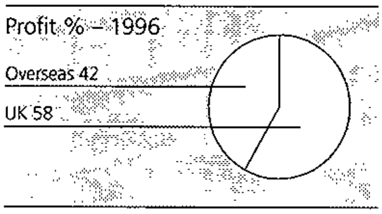
Monopolies And Mergers Commission (MMC) On 7th November 1996 the Director General of the Office of Fair Trading announced that he was referring to the MMC certain practices of the travel industry. We are confident that the MMC will find that the industry is competitive and that the UK tour operating market offers the consumer the widest choice of products and the best value for money to be found anywhere in the world.

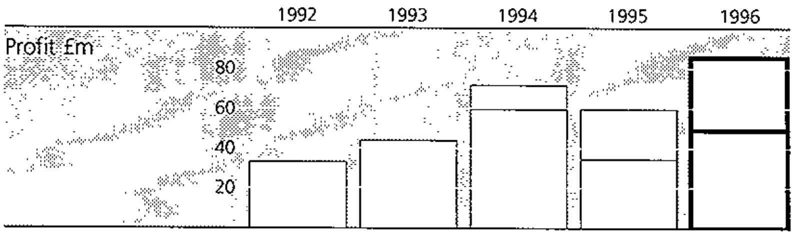
The Board During the year Tom Trickett, Ton Waslander and George Marcall resigned from the Board. Each of them have made major contributions to the success of the Group and we wish them well for the future.

On 6th September 1996 Sir Michael Bishop became Deputy Chairman and Harry Coe, Group Finance Director, took on the additional role of Deputy Chief Executive. At the same time Hugh Collinson became Chairman of the Cruise and Hotels Division which now manages 32 hotel properties and three cruise ships and Mike Lee, Chief Executive of Airtours International, was appointed to the new position of Chairman of the Aviation Division which controls both our UK and Scandinavian airlines.

I am delighted to welcome to the Board Christer Sandahl, Chief Executive of SLG. His appointment reflects the successful growth of SLG under his stewardship and its importance within the Group. Micky Arison and Howard Frank also joined the Board during the year. They are Chairman and Vice Chairman respectively of Carnival, which is now our largest shareholder.

Staff The continuing success of the Group would not be sustained without an extraordinary degree of commitment by staff at all levels of the Group. Although they do not appear upon the balance sheet they represent one of our most important assets. On behalf of the Board I would once again





☐ UK ☐ Overseas

like to express to them our sincere thanks for all of their efforts over the past year.

Prospects The outlook for 1996/97 in all of our major markets is encouraging. Whilst the present booking position in the UK for summer 1997 is very satisfactory, it is still relatively early in the main booking season and profitability will be dependent upon a realistic approach to capacity levels by all of the major UK tour operators. We shall maintain our capacity at or about the same level as summer 1996 and if this position is maintained across the industry the rewards could be substantial.

We have a leading position in Scandinavia which we shall enhance further with the repositioning of the Spies and Tjaereborg brands. For winter 1996/97 these strategies are working successfully, although the more important summer season is not yet on sale.

In North America we have sound businesses which offer quality products at value for money prices. Trading conditions in Canada remain difficult and further rationalisation is likely in a market which remains fragmented. Our new tour operating business in California, Sunquest Holidays, commenced trading on 2nd December 1996 and whilst it is far too early to make any predictions its launch has been very well received by the travel trade and the media.

In summary the Group is in excellent condition and we look forward to the future with confidence. We have proven management teams operating excellent businesses which generate strong cash flows. Together with the strength of our balance sheet this gives us the ability to continue the development of the Group in accordance with our strategy.

David Crossland
Chairman


Harry Coe

Financial and operating review

Business development The year ended 30th September 1996 has been one of significant progress towards our objective of creating a geographically diversified leisure group. Spies was acquired in February 1996 to strengthen SLG's market position in Scandinavia and to provide an entry into the Finnish market. The acquisition of Spies also brought with it 25 hotel properties and gave Airtours full control of Premiair, Scandinavia's largest charter airline. The Group's strength in Canada was increased by the acquisition of Alba and, after careful review of the Californian tour operating market, we announced that we would establish our own business in Los Angeles using the Sunquest brand name.

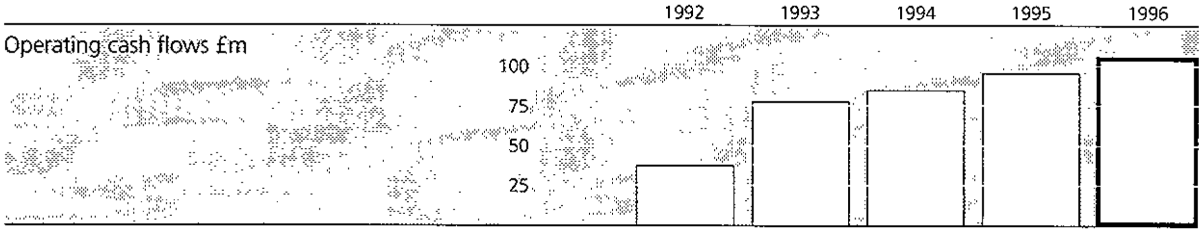
Our innovative Sun Cruise product, which has been extremely popular since we introduced it to the UK and Scandinavian markets, has now been successfully launched in Canada. In the light of the demand for this product we have purchased a third ship which will commence operations in May 1997.

We have for sometime been following with interest the profitable growth of the timeshare market which last year generated worldwide sales of over US$5bn. Our first step into this sector is via a joint venture to develop a timeshare resort in Florida which will be marketed to the Group's UK, Scandinavian and North American customers. The venture has acquired a 54 acre site on International Drive in Orlando, Florida which is close to all the main attractions including Walt Disney World, Sea World and Universal Studios.

The initial phase of the development will involve landscaping the whole of the site and the construction of the first two apartment complexes, a clubhouse, swimming pool and leisure facilities. This phase, which will cost the joint venture approximately US$40m, will be completed by autumn 1997 and will not therefore make any contribution to profits in this financial year.

Results Turnover in the year ended 30th September 1996 increased by 30.4% to £1,717.9m, of which £179.7m came from acquisitions. UK turnover is broadly in line with last year as capacity cuts were matched by higher selling prices. In Scandinavia the turnover of our existing businesses increased by 25.3% as we took advantage of improved economic conditions, whilst turnover in Spies in the post-acquisition period amounted to £174.9m. Our Canadian business, which was acquired towards the end of the previous financial year, generated an additional £95.0m of turnover plus a further £4.8m from Alba.

Group profit before tax increased by 46.1% to £86.8m due to strong performances in the UK and Scandinavia, and a



positive contribution from Canada. A change in accounting policy, which is explained below, increased profit before tax by £1.7m.

UK tour operating profits increased by 50.2% to £41.8m. This was primarily attributable to the success of our pricing policies which led directly to improved margins. Capacity reductions did not have any effect upon our ability to maintain high load factors and full utilisation of our aircraft.

Despite the reduction in industry volumes the profitability of our retail travel business has improved by 24.3% to £8.7m due to increased efficiencies from the expanded branch network and the extension of foreign exchange services to virtually all of our branches.

Our existing Scandinavian businesses generated record profits before tax of £31.5m, an increase of £6.5m or 25.8% over the previous year. In the 28 months since SLG was acquired for £79.9m it has returned profits of £69.2m. Spies, which since acquisition has undergone major organisational changes, returned a very satisfactory profit before tax of £2.9m.

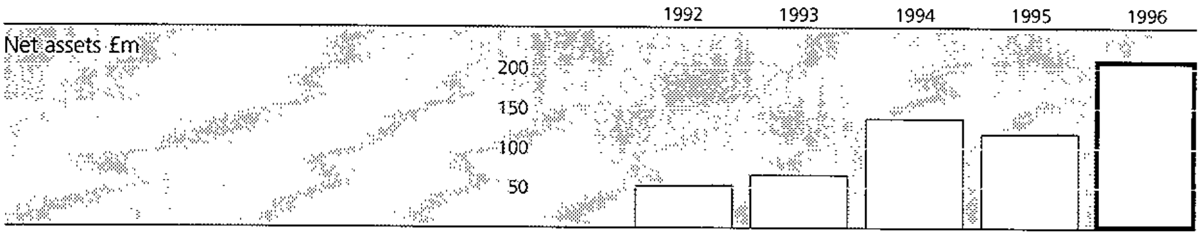
The Canadian market continued to suffer from excess capacity. The problems arising from this were compounded by natural disasters in several key destinations. Against this background Sunquest achieved profits of £2.3m whilst increasing Airtours' presence in North America with the acquisition of Alba. Alba's losses of £0.4m are in line with expectations at the time of acquisition.

Taxation The tax charge for the year after full provision for all deferred taxation liabilities represents 25.0% of profit before tax. It is expected that this level of charge will be maintained for the foreseeable future.

Earnings per share Basic earnings per share increased by 40.9% to 49.23p and fully diluted earnings per share improved by 39.3% to 45.63p. Both basic and fully diluted earnings per share are at record levels for the Group.

Dividend The Board is recommending a final dividend of 12.75p per ordinary share which together with the interim dividend of 3.25p gives a total dividend of 16.00p. This represents an increase of 2.00p or 14.3% over the previous year. At this level the dividend is covered 3.08 times by earnings.

Investment and financial resources The acquisition of Spies and its associated aviation assets generated goodwill of £34.0m and a cash outflow on acquisition of £6.6m. The



purchase of Alba created further goodwill of £10.3m. In accordance with our existing accounting policies goodwill arising on acquisition has been written off directly to reserves.

Capital expenditure during the year amounted to £40.6m which comprised mainly aircraft spares, computer equipment and a deposit of £2.6m on the third ship.

At the end of the financial year the Group had net assets of £207.5m and cash and deposits of £425.6m of which £166.8m represents advanced payments from customers. Coupled with the strong operating cash flows of the Group, this provides substantial financial resources for further expansion.

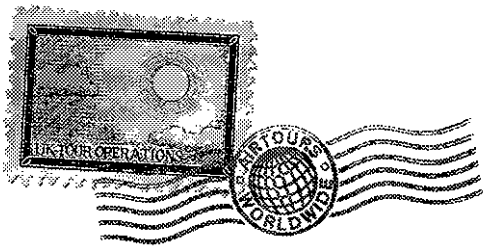
Change in accounting policy 'Empty Legs' are those non revenue earning flights at the end of each of our seasons which are flown empty to resorts in order to bring home the last passengers from each destination. Since the Group's entry into tour operations it has maintained a policy of accounting for empty legs at the time such costs are incurred.

As the Group continues to expand in markets that have strong summer seasons and in the light of our move to quarterly reporting we believe that the existing method no longer gives the most meaningful presentation of our results. Accordingly, the policy has been changed and empty legs are now accrued evenly over the season to which they relate. The effect of the change has been treated as a prior year adjustment and resulted in additional provisions of £8.4m at 30th September 1995 and an increase in profit before tax for the year then ended of £0.4m to £59.4m. The effect on the profit before tax for the year ended 30th September 1996 has been an increase of £1.7m to £86.8m.

Management The Airtours Group is managed on a decentralised basis with a small head office team and a separate Board of Directors for each of the principal Divisions. Set out in the next 14 pages is an overview of the key issues of last year and an outlook for the year to come from the management of those Divisions.

Harry Coe
Deputy Chief Executive & Finance Director

Above: Peter Rothwell with Paul Evans (Purchasing Director) and Richard Carrick (Marketing Director).
Main photo: Airtours making their mark on London buses with their latest advertising campaign.



UK Tour Operations

The improvement in profits for the year is a result of our strict adherence to pricing and discount policies in a period of industry-wide reduction in capacity which brought supply closer to underlying demand.

The early months of the year continued to be affected by the poor trading conditions experienced in summer 1995 and was followed by a relatively weak winter season, although summer 1996 trading was very much better than last year. At the end of October 1995 sales for summer 1996 were 39.1% below those of the previous year and it would have been easy to increase our brochure sales by discounting brochure prices. However, we maintained our belief that our reduced capacity and improved mix of higher margin product would in due course be sold at satisfactory prices. This proved to be the case with sales prices of both brochured product and 'late' sales significantly above the previous year.

The year has seen the delivery of several innovative new products one of which gives our customers the ability to pre-book their seats, duty free goods and their preferred meal on their flight.

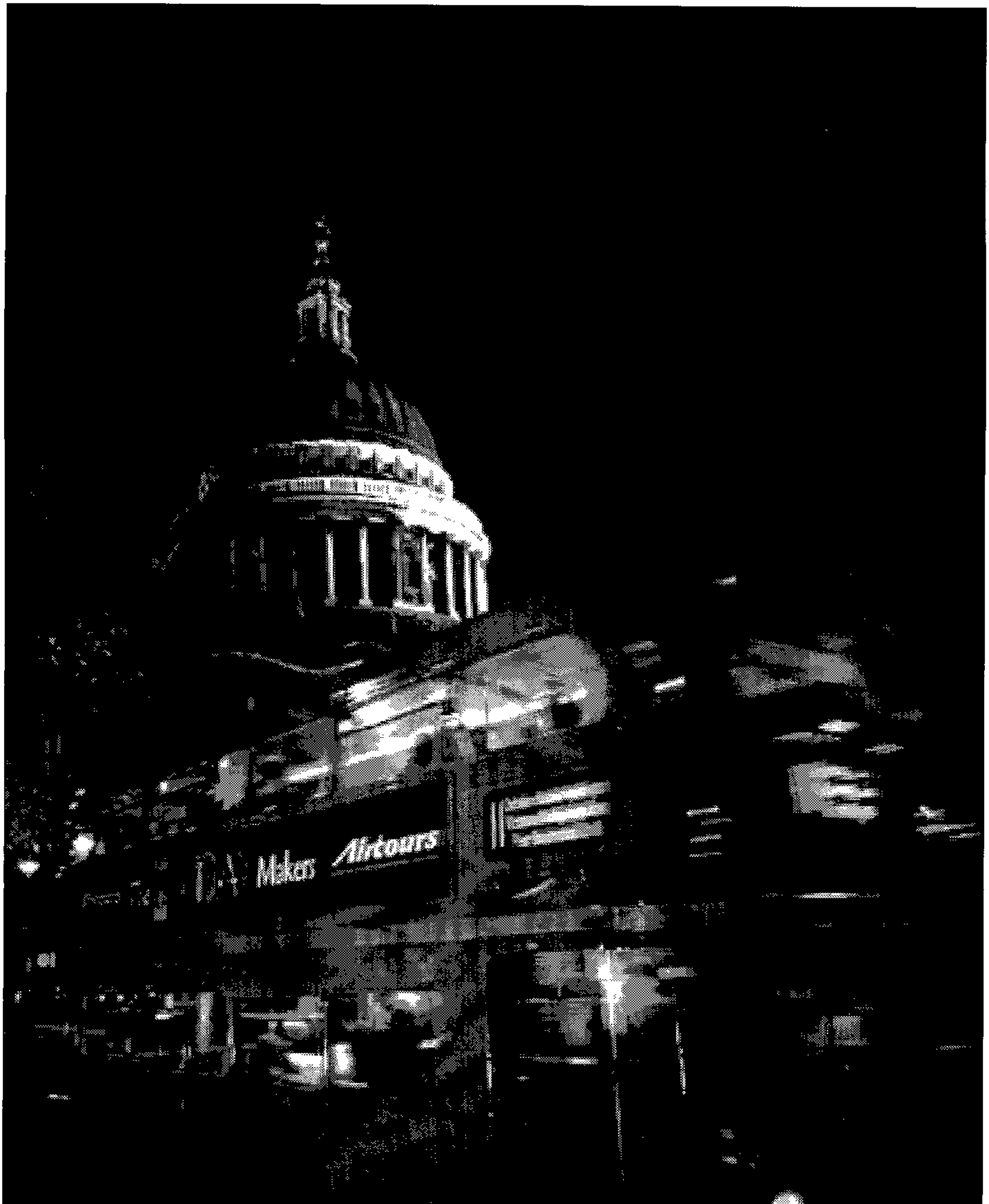
Over the last 18 months there has been a significant restructuring of both the Board and the senior management. Gerry Reilly, formerly a director of First Choice, joined the Company in October 1995 as Operations Director and has total responsibility for product delivery and customer relations. Under his leadership the overseas operations have been restructured and the levels of customer satisfaction improved. Richard Carrick returned as Marketing Director and is again making a major contribution to the development of the business.

Andrew Clemence, who has held a number of executive positions within the Company, has recently been appointed Director of Information Technology and Development. In this role he is directly responsible for the re-engineering of the IT function and the management of the out-sourcing contract with EDS.

The UK tour operating market continues to benefit from much improved conditions. For the current winter season bookings are 12.6% ahead of the previous year and after a very successful early brochure launch, summer 1997 bookings are showing a 57.2% improvement, although this will inevitably fall closer to the current year's levels as our remaining stock is sold.

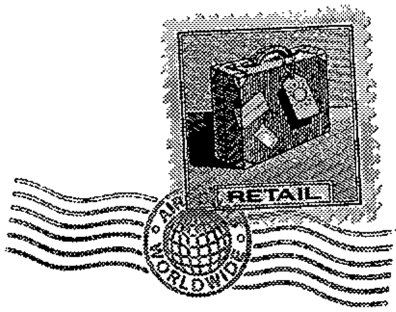
The Company is in good health, staff morale is high and indications are that industry capacities are being maintained at sensible levels, which augers well for the future.

Peter Rothwell
Managing Director


Makers
Airtours


Going Places

Above: Roger Davies and Tony Bennett with Peter Shanks (Commercial Director) and Francesca Ecsery-Merrens (Marketing Director).
Main photo: Going Places in a prime location in Croydon's shopping centre.



UK Retail

Going Places increased profit before tax for the year by 24.3% to £8.7m despite capacity reductions by all of the industry's major tour operators.

Profit increased as benefits came through from the expansion of the shop network and from a number of revenue generating initiatives. Focus was placed upon improving our staff's knowledge of the product range and tight control of shop costs was an important element in increasing profitability. Our teletext operation, Late Escapes, had another highly successful year, proving that teletext can be successful even when there is a shortage of stock.

The success of a retail travel agency business is dependent upon its people. Last year saw substantial investment in this area with a detailed review of the senior management team. Francesca Ecsery-Merrens, formerly a Director of Thorn Europe, joined as Marketing Director and Peter Shanks who is now our Commercial Director, joined from Thomas Cook.

Significant progress has also been made in identifying people who make successful shop managers, travel advisers and foreign exchange cashiers and we are introducing radical new pay and reward policies which will encourage high levels of performance.

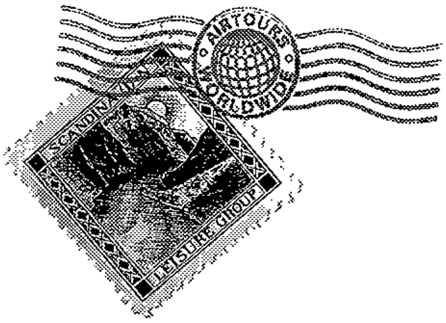
Whilst recent years have seen a rapid expansion in the number of shops, this year saw improvements to the appearance of over 200 of our older shops providing better conditions for both customers and staff.

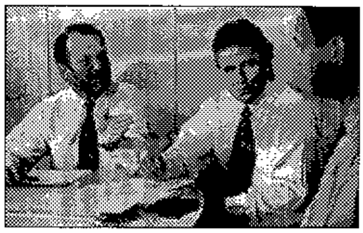
Going Places now includes the UK's largest network of foreign currency bureaux as a result of significant investment in this area over the last year. This investment was followed by a major marketing initiative which lead to an increase of over 70% in foreign exchange revenues compared with the same period in the previous year.

Our business has the highly talented and enthusiastic management team supported by focused and well trained staff expected of a major retailer.

Roger Davies
Chairman

Tony Bennett
Managing Director





Above: Christer Sandahl with Olle Tönnervik (Managing Director, Ving) and Lars Thuesen (Chief Financial Officer).
Main photo: The recently rebranded Spies travel shop in Aalborg, Denmark.

Scandinavian Leisure Group

The existing businesses of SLG made profits before tax of £31.5m an increase of 25.8% over the previous year and the newly acquired Spies businesses contributed a further £2.9m.

During the year there was an improvement in the economies of all of the Scandinavian countries which resulted in increased demand for holidays overseas. Passengers in the existing businesses increased from 915,000 last year to 1,028,000, resulting in record profits for the third consecutive year.

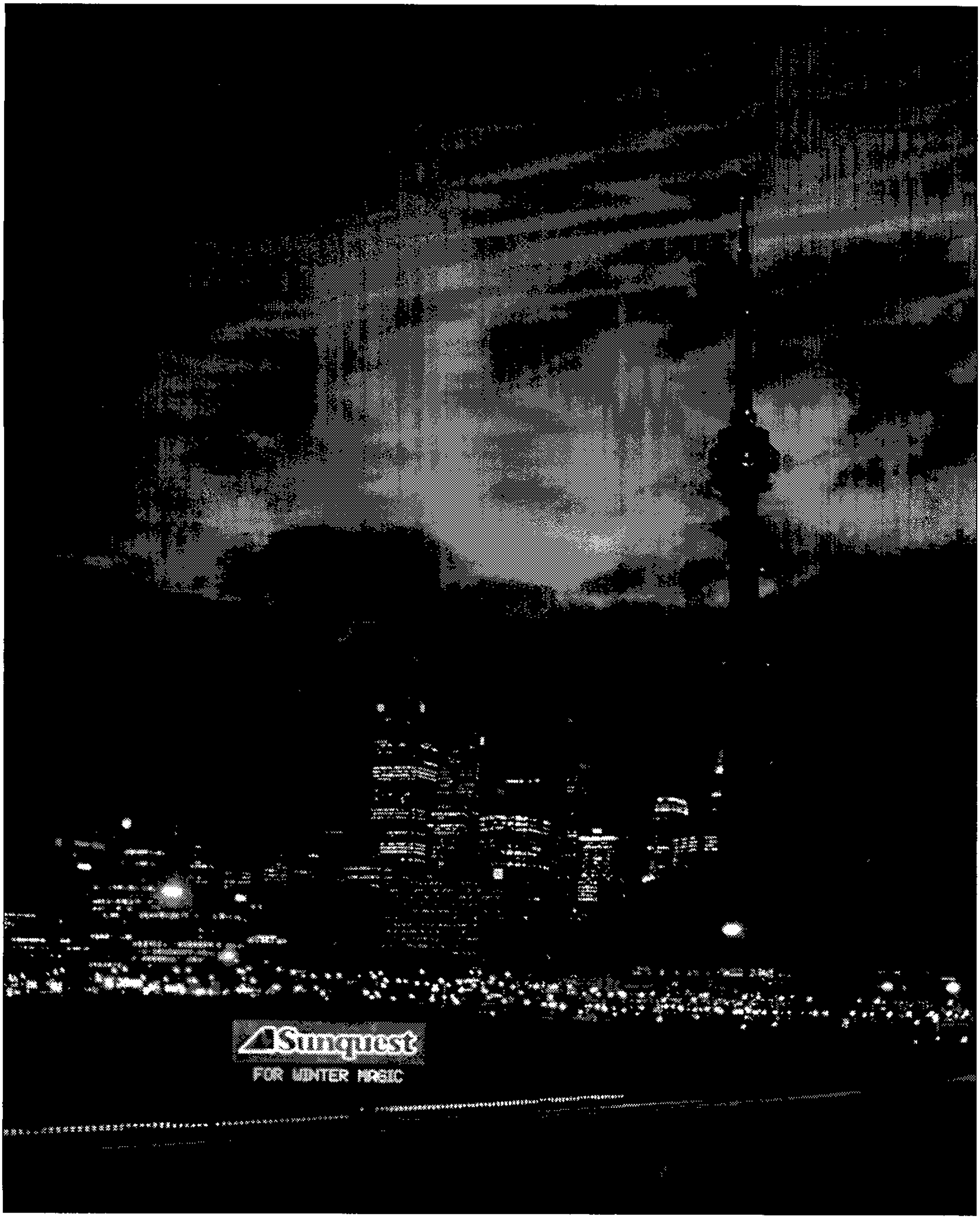
The Spies Group was the third largest tour operator in Scandinavia operating under the Spies and Tjaereborg brands and the acquisition gives SLG approximately 50% of the Scandinavian market. Spies carried 397,000 passengers in the period since acquisition and generated profit before tax of £2.9m. This was achieved whilst carrying out an extensive reorganisation programme, including the integration of most administrative departments into SLG's Stockholm headquarters and the combining of the respective overseas offices in each resort area.

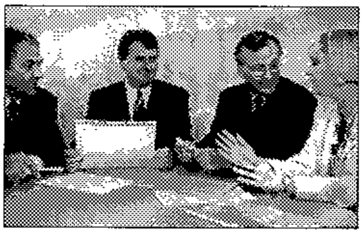
The refocusing of the Spies business has inevitably led to certain staff reductions, but the remaining staff and management now face the future with confidence. I am pleased to welcome from the Spies Group, Svend Erik Nielsen now Deputy Chief Finance Officer of SLG and Bjarne Hornbek, Managing Director of Spies to the SLG management board.

Bookings for winter 1996/97 are currently 92.0% ahead of last year, or 32.2% ahead if Spies is excluded. For summer 1997 SLG will introduce a substantial long haul programme with a series of new destinations. Although brochures for summer 1997 have not yet been launched, advance bookings are encouraging.

Following its major expansion during the year, SLG is now the leading tour operator in all Scandinavian countries and has a significant presence in Finland. The Group has a proven management team and a portfolio of first class brands which command premium prices in the market place and a high degree of customer loyalty. Market conditions remain favourable and SLG is in excellent condition for the future.

Christer Sandahl
Chief Executive


Sunquest
FOR WINTER MAGIC



Above: Leo Desrochers meeting with Anne Massicks (Director, Alba), Gianni Bragagnolo (CEO, Ontario) and John Trickett (CEO, Sunquest Holidays).
Main photo: Sunquest advertising on the main highway into Toronto, the Group's North American headquarters.

North American Leisure Group

Sunquest in Canada produced a profit before tax for the year of £2.3m, a satisfactory result given over capacity in the market and a number of natural disasters in several key resorts.

The acquisition of Sunquest Vacations in August 1995 established Airtours' presence in the North American market through its businesses in Ontario and Western Canada. In August 1996 this market position was strengthened by the acquisition of Alba, one of Canada's largest regional tour operators, for £9.7m. In the six weeks since acquisition Alba produced a loss before tax of £0.4m which was in line with expectations at the time of acquisition.

The senior management team of Alba have been retained and Alba's product range and customer base complements that of Sunquest. Gianni Bragagnolo the former Chief Executive of Alba now runs all of our Toronto based tour operations. We have also recently appointed David Taylor, formerly a director of Air Ontario, as Chief Executive of Sunquest West in Vancouver.

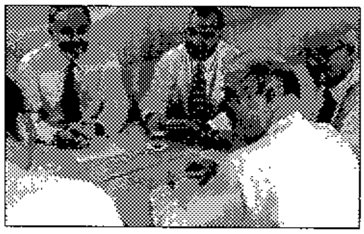
We have made our first step into the US market where we decided that California offered attractive opportunities and that the most cost effective entry would be through a greenfield start-up operation capitalising upon the Sunquest brand. Accordingly, Sunquest Holidays was formed under the leadership of John Trickett, who had previously held management positions within the Airtours Group in the UK prior to moving to California in 1989. Since that time he has held senior executive appointments with the leading tour operator in California. A first class senior management team with extensive experience in the industry has been assembled enabling the launch on 22nd November 1996 of an inaugural programme to the US travel trade with departures commencing in April 1997. Initially the principal destinations, many of which are presently served by other tour operators within the Airtours Group, will be in Mexico, the Caribbean and Hawaii.

Whilst the Canadian market continues to be competitive, bookings for the current winter season are 58.9% ahead of the previous year, or 22.3% if Alba is excluded.

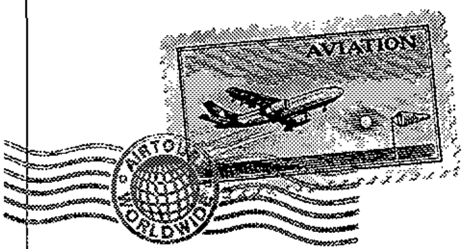
Winter 1996/97 has seen the introduction of the Airtours fly-cruise concept into Canada. This has proved to be highly successful and our capacity for the current season is fully sold. Building upon this success, capacity on the Group's summer 1997 Mediterranean cruise programme was offered to our customers and this has also been a great success with over 60% of capacity sold after only two months on sale.

In a difficult market place North American Leisure Group produced a positive contribution. Having built a business carrying almost 500,000 passengers we have also developed an organisation structure and management team capable of identifying and managing significant further growth opportunities.

Leo Desrochers
Chief Executive



Above: Mike Lee with Robin Walling (Director of Ground Services), Gene Mashlan (Director of Operations and Engineering), Clive Darlaston (Director of Finance) and Colin Penny (Director of Flight Operations).
Main photo: One of Airtours B757 aircraft in Jamaica.



Aviation Division

The acquisition of Spies in February of this year gave Airtours full control of Premiair which is the largest charter airline in Scandinavia. Premiair has a highly experienced management team lead by Managing Director Tom Clausen who has over 30 years aviation experience. The Aviation Division now has the following fleet:

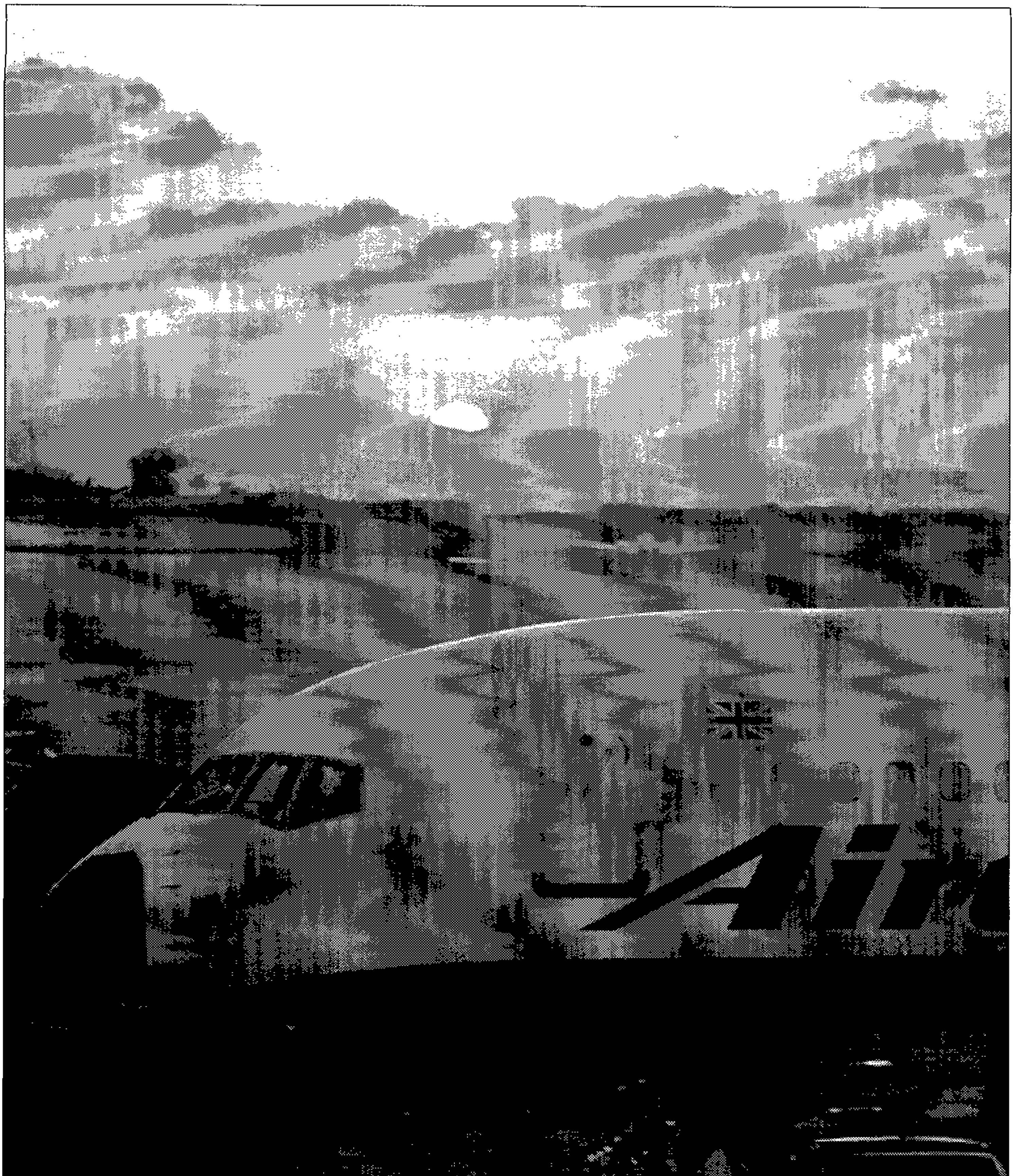
	Premiair	Airtours International	Total Fleet
Airbus A300/A320's	9	10	19
Boeing 757/767's	–	8	8
McD. Douglas DC10's	4	–	4
	13	18	31

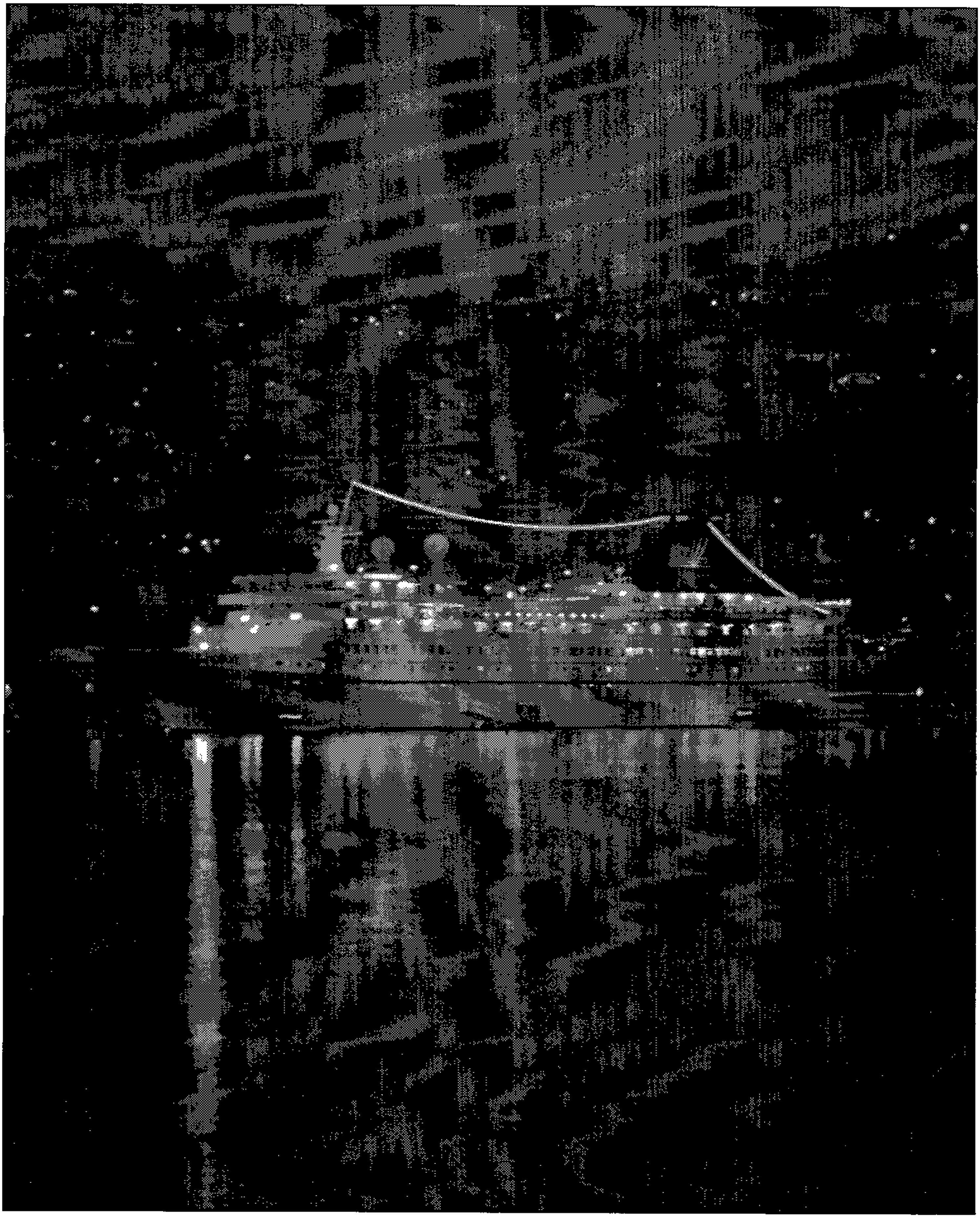
The objective of the Division is to be the lowest cost provider of flying capacity for the Group's tour operating businesses. Common management of the two airlines has already yielded benefits from a reduction in the level of aircraft spares, savings in fuel and insurance costs and in the provision of common ground handling services.

Last winter we replaced Airtours International's remaining seven MD83 aircraft with seven A320's. This was combined with a continuous reprogramming of our UK flight plans to match efficiently the capacity reductions by UK Tour Operations. This was achieved without any serious impact upon our operational efficiencies and we continue to maintain high levels of aircraft utilisation and achieve higher load factors than any other airline in the world.

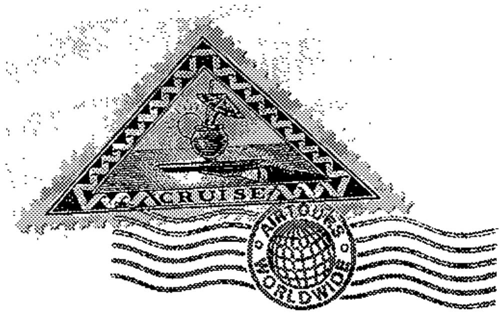
The coming year sees the arrival of a new Boeing 767 in the UK and an additional DC10 in Scandinavia which will be utilised in the development of their long haul business. Whilst the capacity of the enlarged fleet is within our self imposed limit of the low-season requirements of the Group's tour operating businesses, we are now in a position to swap aircraft between markets should it be advantageous to do so.

Mike Lee
Chairman





Hugh Collinson Chairman



Above: Jim Evans (Director of Engineering) and John Drysdale.
Main photo: The MS Carousel anchored off Villefranche.

Cruise and Hotels: Sun Cruises

Airtours has been largely responsible for the creation of a new cruise market in the UK, Scandinavia and Canada. Utilising many of the services of the Group's tour operating businesses and taking advantage of its distribution network substantially reduces cost and enables a high quality product to be offered at prices significantly below those offered by traditional cruise operators.

The successful introduction of the MS Seawing and MS Carousel in summer 1995 was followed by a winter season cruising in the Eastern Mediterranean, the Canary Islands and the Caribbean. Both ships operated with high load factors and demand fulfilled our expectations.

In only its second year of operation Sun Cruises achieved an 18% share of the total UK cruise market and a recent survey by an independent research company found higher levels of satisfaction than they had previously experienced with any other product.

Demand for summer 1996 Mediterranean cruises was strong and the level of repeat bookings was particularly pleasing. Load factors for both ships have been above 100% and the amount spent by passengers on board our ships has increased as our understanding of customers preferences has increased. For this winter the MS Carousel is based in the Caribbean and is for the first time offering the fly-cruise product to the Canadian market via Sunquest and Alba.

Following the early success of the cruise programme and the expected future growth in the cruise sector, we have acquired a third ship for a cash consideration of £26.0m. The Song of Norway, which is to be renamed the MS Sundream, is a sister ship of the MS Carousel and will undergo extensive refurbishment in April 1997 before commencing operations in May 1997.

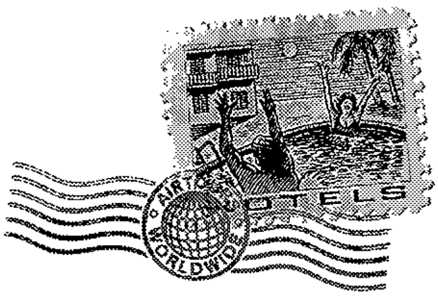
The summer 1997 programmes for MS Carousel and MS Seawing were launched in July 1996 and demand for this product is extremely encouraging. The MS Sundream programme was successfully launched in September 1996 in both the UK and Canada where a Mediterranean fly-cruise programme is being offered to Sunquest and Alba's passengers for the first time.

We have made cruising affordable and available to the majority of holidaymakers and, as cruising represents less than 2% of all package holidays taken by Europeans, this market is expected to show one of the highest growth rates within the holiday sector.

Hugh Collinson
Chairman

John Drysdale
Chief Executive

Above: Lars Löfgren (Controller) and Claes Bernhard.
Main photo: Sunwing Arguineguin in Gran Canaria.



Cruise and Hotels: Hotels

Sunwing enjoyed record occupancy levels throughout the year due to continued strong demand from Scandinavia and an increasing awareness of the brand within the United Kingdom. In addition the highly successful cruise and stay programme boosted occupancy levels and enabled several hotels to remain open for longer periods during the winter.

There is a high proportion of repeat bookings from our customers proving the attractiveness of the Sunwing product. Repeat bookings are particularly welcome as they are normally made in the early stages of the booking cycle giving early cash deposits and higher yielding brochure bookings.

The acquisition of Spies in February brought with it a hotel division containing 25 properties. Integration of the Spies hotels into the existing management structure has now been completed and each new property has been carefully reviewed to ensure that it generates a satisfactory financial return and satisfies the needs of the Group's tour operators. As a result of this scrutiny, a number of these properties will not be operated next summer.

As part of the long term strategy of the Hotel Division distinct brands are being developed to satisfy the differing demands of the Group's tour operators. The highly successful Sunwing brand is primarily designed for the Scandinavian customers of Ving, whilst the Suncenter product is marketed through Airtours Holidays and is more specifically focused upon the needs of the UK market. It is the intention to create a unique brand identity for a number of the Group's other properties for the benefit of our different businesses. Each hotel is exclusive to the Group's customers which are drawn from a number of different geographic markets thus ensuring protection against economic weakness or poor demand in any particular market place.

Hugh Collinson
Chairman

Claes Bernhard
Managing Director

Board of Directors

David Crossland† Aged 49. Chairman of the company since 1972. A Director of Carnival Corporation. Over 30 years experience in the travel industry.

Micky Arison Aged 47. Non-Executive Director appointed in 1996. He is the Chairman of Carnival Corporation.

Sir Michael Bishop CBE†* Aged 54. Non-Executive Director since 1987. Appointed Deputy Chairman in September 1996. Chairman, Airlines of Britain Holdings plc. Also Non-Executive Chairman of the Channel Four Television Corporation and a Non-Executive Director of Williams Holdings plc.

Harry Coe Aged 52. Joined the Company in 1988 as Finance Director becoming Deputy Chief Executive in September of this year. Previously held Board level appointments in a diverse range of industries including electronics, printing, financial services and commercial television.

Hugh Collinson Aged 52. Chairman of the Group's newly formed Cruise and Hotel Division. Joined the Company in 1985. Previously Company Secretary of Thomas Locker (Holdings) plc and a Director of its UK trading subsidiaries.

Roger Davies Aged 51. Appointed Director in 1994, Chairman of the Retail Division. Has 26 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 since 1989.

Tom Farmer CBE* Aged 56. 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 and a Non-Executive Director of Dares Estates plc.

Howard Frank* Aged 55. Non-Executive Director appointed in 1996. He is Vice Chairman of Carnival Corporation.

Mike Lee Aged 49. Joined Airtours in 1990 and appointed to the Board in 1993. Chairman of Airtours Aviation Division. Has over 30 years airline industry experience.

Christer Sandahl Aged 52. Joined Airtours in 1994 when SLG was acquired. Appointed Director in 1996. Chief Executive of SLG. 31 years of experience in the travel industry.

Eric Sanderson†* Aged 45. Non-Executive Director appointed in 1987. Chief Executive of British Linen Bank Group Limited. Also a Non-Executive Director of English and Overseas Properties plc and Dunedin Enterprise Investment Trust plc.

† Member of the remuneration committee
* Member of the audit committee

Photo left to right:
Standing: Christer Sandahl, Tom Farmer, Howard Frank, Roger Davies, Eric Sanderson, Mike Lee, Sir Michael Bishop. *Seated:* Hugh Collinson, Micky Arison, David Crossland, Harry Coe.

Corporate officers and divisional executives

Corporate officers
D C Burns – Group Secretary
T R Byrne – Deputy Finance Director
D Collins – Director of Information Technology
J S Jennings – Director of Corporate Development
B G K Nightingale – Director of Group Treasury Services
G D Ridsdale – Head of Internal Audit

UK Leisure Group
UK Tour Operations
P F Rothwell
R Carrick
M J Cheetham
A J Clemence
S Endacott
P Evans
C A L Mottershead
G Reilly

UK Retail
R O Davies
A J Bennett
D A Blackledge
F Ecsery-Merrens
P D K Shanks

Aviation Division
M C Lee
M Agerskov
H Bak Jensen
T F Clausen
C J M Darlaston
M Davies
B C Deavall
L Holmgren
G Mashlan
T Østergaard
C R Penny
P A Plested
N Sølling
R C Walling

Scandinavian Leisure Group
B C Sandahl
P Braathen
B Hornbek
S E Neilsen
L Pellvik
I Ståhl
L Thuesen
O Tönnervik
S Weihagen

North American Leisure Group
L Desrochers
B Bent
G Bragagnolo
K Gertner
M Stone
D Taylor
J Trickett

Cruise and Hotels Division
H H Collinson
C Bernhard
F Capo
J Drysdale
J Evans
I Gonos
L Löfgren
D Wright

Corporate advisers

Principal bankers
Barclays Bank plc
PO Box 357
51 Mosley Street
Manchester M60 2AU

The Royal Bank of Scotland plc
Corporate Banking
55 Spring Gardens
Manchester M2 2BY

National Westminster Bank plc
Drapers Gardens
12 Throgmorton Avenue
London EC2N 2DL

Societe Generale
Barnett House
53 Fountain Street
Manchester M60 2AD

Financial advisers
Deutsche Morgan Grenfell
23 Great Winchester Street
London EC2P 2AX

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

Financial communications
Brunswick Group
16 Lincolns Inn Fields
London WC2A 3ED

Stockbrokers
Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Registrars and transfer office
Bank of Scotland
Registrar Department
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 Sons & Latham
Dennis House
Marsden Street
Manchester M2 1JD

Wilde Sapte
1 Fleet Place
London EC4M 7WS

Auditors' report

to the members of Airtours plc

We have audited the financial statements on pages 36 to 58 which have been prepared under the historical cost convention and accounting policies set out on pages 36 and 37. We have also examined the disclosures relating to the emoluments, share options and long term incentive scheme interests of the Directors which form part of the report to shareholders by the Remuneration Committee on pages 29 to 33.

Respective responsibilities of Directors and auditors

As described on page 28 the 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 1996 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
16th December 1996

Auditors' report

to Airtours plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statement on page 28 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin 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 to continue in operational existence for the foreseeable future.

Opinion

With respect to the Directors' statements on internal financial control and going concern on page 28, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for Directors) 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 certain officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 28 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors
Bank House
9 Charlotte Street
Manchester M1 4EU
16th December 1996

Corporate governance

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

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. 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 Directors have reviewed the effectiveness of the Group's systems of internal financial control.

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.
- a Group Treasury function which manages the Group's exposures to foreign currencies.

Going concern

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

Directors' responsibilities

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

Auditors' responsibilities

Company law requires auditors to form an independent opinion on the financial statements presented by the Directors based on their audit and to report their opinion to the shareholders. The Companies Act 1985 also requires auditors to report to the shareholders if the following requirements are not met:

- that the companies in the Group have maintained proper accounting records.
- that the financial statements are in agreement with the accounting records.
- that Directors' emoluments and other transactions with Directors are properly disclosed in the financial statements.
- that the auditors have obtained all the information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of the audit.

The auditors' opinion does not encompass the Directors' report on pages 34 and 35. However, the Companies Act 1985 requires auditors to report to the shareholders if the matters contained in the Directors' report are inconsistent with the financial statements.

Remuneration committee report

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

The Committee, under the Chairmanship of Mr Crossland, is responsible for the determination of the remuneration policy as applied to Airtours' executive Directors and senior executives. Mr Crossland does not determine his own remuneration package.

Executive remuneration policy

The Group's remuneration policy ensures that Directors and senior executives are rewarded in a way that attracts and retains management of the highest quality and motivates them to achieve the highest level of Group performance consistent with the best interests of the Group, its shareholders and employees. The Committee takes account of 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 accepted by the Board.

The main elements of remuneration are:

i) Base salary and benefits

Base salaries for executive Directors are reviewed with effect from April each year. Benefits generally include, with the exception of Mr R O Davies, private health insurance, prolonged disability cover, death in service benefits and the provision of 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. For the year ended 30th September 1996 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. No bonus payments were made in respect of the year ended 30th September 1995.

b) Long term performance 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 on 9th September 1996. Subject to the achievement of testing performance criteria it allows eligible employees, including executive Directors, to earn benefits over a period of not less than four years. Benefits earned will be paid out over the period between the fourth and sixth anniversaries of the date of the award. 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 on a date as determined by the participant between the fourth and six anniversaries of the date of the award.

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

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

The following notional awards of ordinary shares were made to Directors on 24th September 1996:

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

Remuneration committee report

c) R O Davies
Under the terms of his service contract Mr R O Davies next year becomes entitled to a bonus (not exceeding £1,000,000) from a shadow option scheme. The amount payable under the scheme is calculated by multiplying 350,000 by the excess over 391p of the mid-market price of an ordinary share (as derived from the Daily Official List of the London Stock Exchange) on a date falling in the period 1st January 1997 to 31st December 1998 and notified to the Company by Mr Davies at any time prior to 31st December 1998. An amount of £740,250 has been accrued at 30th September 1996 in respect of this bonus, based on a share price of 602.5p, being the year end share price.

iii) Pension rights

Mr A H Coe is a member of the Company's defined contribution scheme into which the Company contributes 27.5% of his base salary. Mr R G Marcall was also a member of the Company's defined contribution scheme throughout the year into which the Company contributed 14% of his base salary. In addition a further 11% of Mr Marcall's salary was payable annually in arrears dependent on the attainment by the Group of its profit target and full provision has been made in respect of the year ended 30th September 1996.

Messrs H H Collinson and M C Lee have their own non-contributory executive pension schemes. With regard to Mr Collinson, subject to Inland Revenue limits, the Company pays the lesser of such sum as will ensure that Mr Collinson will receive a pension entitlement equal to two-thirds of his base salary at the date of his retirement or a contribution equal to 50% of his base salary. In the year ended 30th September 1996 the Company's contribution was restricted to 50% of Mr Collinson's base salary and this situation is likely to continue in the future. With regard to Mr Lee a contribution of 14% of his base salary is paid into his executive pension scheme. In addition a further 11% is payable annually in arrears dependent on the attainment by the Group of its profit target and full provision has been made in respect of the year ended 30th September 1996.

Mr B C Sandahl's contract of service provides for the payment of an amount equal to 25% of his base salary into a pension scheme for his benefit with effect from 1st October 1996.

No other Directors are 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 and which was 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.

No options were granted under the Scheme during the year ended 30th September 1996.

There are no performance criteria attached to the exercise of Class 1 options and none have been granted since August 1994. 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 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.

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 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. No such invitation was extended in the year ended 30th September 1996 although a further invitation will be extended to eligible UK employees on 17th December 1996.

Service contracts

Each of the executive Directors has a service contract with the Company. Mr R O Davies and Mr B C Sandahl both have contracts which are terminable by the Company giving not less than 12 months' notice. Mr H H Collinson's contract is terminable by the Company giving not less than nine months' notice and provides that, upon termination, Mr Collinson would receive a sum not exceeding 87% of his then maximum aggregate annual entitlement to salary, bonus and pension contributions and also provides that Mr Collinson would continue for a period of 15 months following termination to receive certain other benefits provided under the contract (or payment in lieu, to the extent that such benefits can no longer be provided). All the other executive Directors service contracts 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.

Greenbury Code of Best Practice

Save for the exceptions noted above, the Company complies with the Code of Best Practice issued by the Greenbury Committee as now incorporated in Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange. In determining the remuneration packages for Directors, the Remuneration Committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules.

Remuneration committee report

Remuneration in respect of Directors was as follows:

	Annual base salary Sept 96 £000	Salary & fees £000	Annual bonus £000	Benefits £000	Pension contributions £000	Total 1996 £000	Total 1995 £000
Executive							
D Crossland, Chairman and highest paid Director	340	333	213	34	–	580	337
A H Coe	232	228	145	17	69	459	282
H H Collinson	286	280	179	10	142	611	400
R O Davies	212	209	80	1	–	290	204
M C Lee	180	178	90	10	44	322	194
R G Marcall (resigned 11th December 1996)	180	178	90	9	44	321	213
B C Sandahl (appointed 5th September 1996)	193	16	23	1	4	44	–
T Waslander (resigned 5th September 1996)	–	165	84	20	23	292	222
		1,587	904	102	326	2,919	1,852
Non-executive							
M M Arison (appointed 4th April 1996)	–	–	–	–	–	–	–
Sir Michael Bishop	33	33	–	–	–	33	33
T Farmer	17	17	–	–	–	17	25
H S Frank (appointed 4th April 1996)	–	–	–	–	–	–	–
E F Sanderson	17	17	–	–	–	17	17
T Trickett (retired 5th September 1996)	–	33	–	–	–	33	33
		100	–	–	–	100	108
Total emoluments		1,687	904	102	326	3,019	1,960

Not included in the above table is an amount of £740,250 which has been accrued at 30th September 1996 in respect of a future bonus entitlement to which Mr R O Davies may become entitled under the terms of his service contract, as referred to earlier in this report.

Following Mr T Waslander's resignation from the Company he is to receive compensation for loss of office from the Company amounting to £197,480 payable over 18 months from January 1997 and, on 31st December 1996, a payment of £125,235 will be made into the Airtours pension scheme for his benefit.

The interests, beneficial unless otherwise indicated, of the Directors in the shares of the Company, as shown by the register maintained under Section 325 of the Companies Act 1985, at 1st October 1995 (or their date of appointment to the Board if later), and 30th September 1996 were as follows:

	Ordinary shares 1996	Ordinary shares 1995	Class 1 options over ordinary shares 1996	Class 1 options over ordinary shares 1995	Class 2 options over ordinary shares 1996	Class 2 options over ordinary shares 1995	SAYE scheme options over ordinary shares 1996 and 1995	Preference shares 1996 and 1995
D Crossland†	16,179,958	30,000,000	–	–	–	–	–	–
M M Arison#	40,000,000	40,000,000	–	–	–	–	–	3,789,374
Sir Michael Bishop	67,200	67,200	–	–	–	–	–	–
A H Coe‡	49,046	49,046	50,000	50,000	90,540	90,540	6,265	–
H H Collinson	713,786	1,013,786	277,835	277,835	135,945	135,945	6,265	–
R O Davies	10,000	10,000	–	–	–	–	–	–
T Farmer	25,000	25,000	–	–	–	–	–	–
H S Frank	–	–	–	–	–	–	–	–
M C Lee	67,402	96,256	100,000	100,000	140,540	140,540	6,265	5,000
R G Marcall	40,533	40,533	12,500	12,500	53,040	53,040	6,265	–
B C Sandahl	–	–	–	–	–	–	–	–
E F Sanderson	6,240	6,240	–	–	–	–	–	–

† Under an agreement dated 21st February 1996, which is effective to 31st December 1997, Mr T Trickett, a former Director of the Company, has agreed to exercise the voting rights in respect of certain ordinary shares in the Company in accordance with Mr D Crossland's instructions and has agreed not to sell such shares without Mr Crossland's consent. Such shares amounted to 3,500,000 at 30th September 1996 (1st October 1995: 7,000,000) and do not form part of Mr Crossland's holding noted above.

Mr M M Arison's interests arise from the fact that, pursuant to Section 324 of the Companies Act 1985, he is, by reason of his interests in Carnival Corporation, interested in the 40,000,000 ordinary shares and 3,789,374 preference shares which are registered in the name of Carnival (UK) Limited, a wholly owned subsidiary of Carnival Corporation.

‡ Of the 49,046 ordinary shares 29,594 represent a non-beneficial interest.

In the period between 30th September 1996 and 6th December 1996 there were no changes in the Directors' interests referred to above.

The undermentioned Directors had outstanding the following options to acquire ordinary shares of the Company under the terms of the Airtours plc Share Option Scheme (1986) or the Airtours plc Savings-Related Share Option Scheme at 30th September 1996. None of the Directors were granted, or exercised, any share options during the year.

		At 1st Oct 1995 and at 30th Sept 1996	Exercise price	Date from which exercisable	Expiry date
A H Coe	Class 2	40,540	115.68p	05.07.96	04.07.01
	SAYE	6,265	275.00p	01.10.98	31.03.99
	Class 1	50,000	448.50p	05.08.97	04.08.04
	Class 2	50,000	448.50p	05.08.99	04.08.04
H H Collinson	Class 1	190,538	106.06p	01.07.94	30.06.01
	Class 1	22,297	115.68p	05.07.94	04.07.01
	Class 2	70,945	115.68p	05.07.96	04.07.01
	SAYE	6,265	275.00p	01.10.98	31.03.99
	Class 1	65,000	448.50p	05.08.97	04.08.04
	Class 2	65,000	448.50p	05.08.99	04.08.04
M C Lee	Class 2	40,540	115.68p	05.07.96	04.07.01
	SAYE	6,265	275.00p	01.10.98	31.03.99
	Class 1	100,000	448.50p	05.08.97	04.08.04
	Class 2	100,000	448.50p	05.08.99	04.08.04
R G Marcall	Class 2	40,540	115.68p	05.07.96	04.07.01
	SAYE	6,265	275.00p	01.10.98	31.03.99
	Class 1	12,500	448.50p	05.08.97	04.08.04
	Class 2	12,500	448.50p	05.08.99	04.08.04

The mid market price of the Company's ordinary shares at the close of business on 30th September 1996 was 602.5p (1995: 381p) and the range during the financial year ended 30th September 1996 was 309p to 610p.

Directors' report

The Directors present their report together with financial statements and auditors' report for the year ended 30th September 1996.

Principal activities

Airtours plc operates within the leisure travel industry with businesses in the United Kingdom, Scandinavia and North America.

On 15th February 1996, the Group acquired Simon Spies Holding A/S, a major Scandinavian tour operator, and as a consequence of this acquisition full control of Premiair, the largest charter airline in Scandinavia. On 6th August 1996 the Group acquired Alba Tours International Inc., one of the largest regional tour operators in Canada, based in Toronto. On 15th August 1996 the Group entered into a contract to purchase a third cruise ship, the MS Song of Norway and on 11th October 1996 the Group announced the formation of a new Company in the United States of America to carry on a tour operating business based in California. A full review of the Group's activities and its financial position at 30th September 1996 are reported in the Chairman's statement and in the Financial and Operating reviews on pages 2 to 21.

Results and dividends

Profits for the year after tax and minority interests amount to £64.9m (1995 as restated: £43.0m) from which the preference dividend amounting to £3.2m (1995: £3.2m) has been deducted. The Directors recommend a final dividend of 12.75p (1995: 11p) per ordinary share amounting to £17.3m to be paid on 17th February 1997, which, with the interim dividend of 3.25p (1995: 3p) per ordinary share, amounting to £4.4m, paid on 29th July 1996, makes a total of 16p for the year (1995: 14p). The retained profit of £40m (1995 as restated: £23.7m) 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.

Directors

The Directors in office at the end of the year and their interests in the shares of the Company are listed on page 33.

Messrs M M Arison and H S Frank were appointed Directors on 4th April 1996 and Mr B C Sandahl was appointed a Director on 5th September 1996. They retire at the forthcoming Annual General Meeting in accordance with Article 87 of the Company's Articles of Association and, being eligible, offer themselves for election. In accordance with Article 92 of the Company's Articles of Association Mr A H Coe and Mr E F Sanderson retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Mr Coe has a service contract which is terminable by the Company at any time on two years notice. Mr Sanderson does not have a service contract with the Company. His letter of appointment currently provides for him to serve as a Director until the 1998 Annual General Meeting (or, if sooner, 31st January 1998). Mr T Trickett retired from the Board of Directors on 5th September 1996 and Mr T Waslander and Mr R G Marcall resigned from the Board of Directors on 5th September 1996 and 11th December 1996 respectively.

Mr M M Arison is a Director of, and a significant stockholder in, Carnival Corporation ("Carnival"). Mr H S Frank is also a Director of and stockholder in Carnival. Each of them is therefore interested in the Subscription Agreement dated 21st February 1996 whereby Carnival subscribed for 20 million ordinary shares in the Company at £5 per share and following the completion of which they were appointed as Directors of Airtours plc. Upon implementation of the associated partial offers by Carnival, Mr D Crossland became a stockholder in Carnival and he has subsequently been appointed a Director of Carnival, with the result that he is now also interested in that Subscription Agreement (insofar as it has ongoing significance). Save as referred to in this paragraph, no Director is or was materially interested in any contract of significance to which the Company or any of its subsidiary undertakings is a party and which was subsisting during the year.

Employee involvement

The Group has continued its practice of keeping its employees informed of matters affecting them as employees 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 Group. 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.

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. 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 charitable donations of £30,000 during the year. No political donations were made.

Substantial shareholders

At 6th December 1996, the Company had been notified of the following shareholdings, in addition to those of Directors listed in page 33, amounting to 3% or more of the issued ordinary share capital of the Company:

	Number of shares held	% of issued share capital
Carnival Corporation	40,000,000	29.46
Schroder Investment Management Limited	16,092,081	11.85
GE Investments	6,281,484	4.63

Annual General Meeting

In addition to the ordinary business there are three items of special business for consideration at the forthcoming Annual General Meeting. The first relates to the reappointment of Arthur Andersen as the Company's auditors and the authorisation of the Directors to fix the auditors remuneration. This comprises special business only by reason of the fact that Arthur Andersen were appointed auditors during the year by the Board of Directors to fill a casual vacancy.

Resolution 9 is a special resolution to amend in certain respects the Articles of Association of the Company. In outline, the changes are:
- the addition of new Articles 4.2 to 4.5 relating to CREST; and,
- the amendment of the existing Article 5.1(d) (relating to the conversion of the Company's convertible cumulative preference shares) to allow elections to be made for such shares to be converted into ordinary shares by means of electronic messages given through the CREST system.

There are also a number of other minor consequential amendments.

As explained in the Interim Report to shareholders dated 19th June 1996, CREST is the new system set up by the Bank of England to modernise the Stock Exchange's trading system through enabling shares to be held and transferred in electronic, rather than paper, form. CREST became operational in July of this year and will largely replace the existing paper based system for trading by institutional shareholders. However, it is a voluntary system and shareholders who wish to retain their paper share certificates can do so. This may be preferable for shareholders who do not trade frequently. Trading in the Company's shares through CREST commenced on 25th November 1996.

As stated in the notice of the Annual General Meeting, copies of the Company's existing Articles of Association and the Articles of Association as proposed to be amended will be available for inspection prior to and at the Annual General Meeting.

The Directors' limited authority to allot shares for cash without reference to statutory pre-emption rights, which was granted at the Extraordinary General Meeting held on 18th March 1996, expires at the forthcoming Annual General Meeting. Accordingly, resolution 10 will be proposed as a special resolution to renew this authority at the Annual General Meeting. The proposed new authority will disapply statutory pre-emption rights in respect of allotments in connection with any rights issue and, generally, in connection with allotments of ordinary shares having a nominal value of up to £678,975 (representing 5% of the issued ordinary share capital on 6th December 1996) and will terminate 15 months after the date of the passing of the resolution (or, if earlier, at the close of the 1998 Annual General Meeting).

Auditors

Arthur Andersen were appointed auditors on 8th May 1996 to fill a casual vacancy in accordance with Section 388(1) of the Companies Act 1985. Special notice pursuant to Section 388(3) having been given, a resolution to reappoint Arthur Andersen as auditors will be proposed at the Annual General Meeting to be held on 23rd January 1997.

By order of the Board

D C Burns
Secretary, 16th December 1996

Registered Office
Parkway Three, Parkway Business Centre
300 Princess Road, Manchester M14 7QU

Accounting policies

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

The principal accounting policies of the Group, all of which have been applied consistently throughout the year and the preceding year, with the exception explained in note 10, 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 1996. 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 reserves. Profits or losses on intra-group transactions are eliminated in full.

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

2) Associated undertakings

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

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

The investment in associated undertakings in the Group balance sheet is valued at the Group's share of net assets after adjustment for goodwill or discount on acquisition.

3) Income recognition

Turnover represents the aggregate amount of revenue receivable from inclusive tours (net of agents' commissions), travel agency commissions received and other services supplied to customers in the ordinary course of business. Revenues and expenses relating to inclusive tours are taken to the profit and loss account on flight or holiday departure. Certain expenses such as the cost of non revenue earning flights and 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) Depreciation

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

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

8) Deferred tax
Deferred tax is provided for using the liability method. 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 taxation which would be payable if the net profit of overseas subsidiaries and associated undertakings were remitted to the United Kingdom.

9) Foreign currencies
The results of overseas subsidiary undertakings are translated using average exchange rates. The balance sheets of overseas subsidiary undertakings are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency assets and liabilities held at year end are translated at year end exchange rates, or the exchange rate of a related forward exchange contract 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 in Scandinavia, and the pension costs charged against profits are based on actuarial methods and assumptions prescribed in accordance with local practice and legislation.

Group profit and loss account

Year ended 30th September 1996	Notes	1996 £000	1996 £000	Restated 1995 £000
Turnover	1			
Continuing operations		1,538,114		
Acquisitions		179,737		
			1,717,851	1,317,791
Cost of sales	2		(1,488,958)	(1,171,643)
Gross profit			228,893	146,148
Net operating expenses	2		(151,541)	(101,676)
Share of (losses)/profits of associated undertakings			(547)	5,581
Operating profit				
Continuing operations		73,711		
Acquisitions		3,094		
Profit on ordinary activities before interest	1		76,805	50,053
Net interest receivable	1,3		10,021	9,370
Profit on ordinary activities before tax	1,4		86,826	59,423
Tax on profit on ordinary activities	5		(21,701)	(16,383)
Profit on ordinary activities after tax			65,125	43,040
Minority interests – equity			(223)	(1)
Profit for the financial year	6		64,902	43,039
Dividends	7			
Equity		(21,719)		(16,106)
Non-equity		(3,201)		(3,223)
			(24,920)	(19,329)
Profit retained	22		39,982	23,710
Basic earnings per ordinary share	8		49.23p	34.94p
Fully diluted earnings per ordinary share	8		45.63p	32.76p

Statement of total recognised gains and losses

Year ended 30th September 1996	Notes	1996 £000	Restated 1995 £000
Profit for the financial year		64,902	43,039
Currency differences on foreign currency net investments		(6,913)	4,415
Total recognised gains and losses relating to the year		57,989	47,454
Prior year adjustment	10	(8,364)	–
Total gains and losses recognised since last annual report and accounts		49,625	47,454

The accounting policies on pages 36 and 37 and notes on pages 42 to 58 form part of these financial statements.

Group balance sheet

At 30th September 1996	Notes	1996 £000	1996 £000	Restated 1995 £000
Fixed assets				
Tangible assets	11		256,428	197,941
Investments	12		6,505	4,957
			262,933	202,898
Current assets				
Stocks	13	6,821		3,583
Debtors: amounts falling due within one year	14	173,625		113,330
Debtors: amounts falling due after one year	15	62,273		55,304
Investments	16	9,727		4,752
Cash and deposits	17	425,588		304,504
		678,034		481,473
Creditors: amounts falling due within one year	18	587,981		445,819
Net current assets			90,053	35,654
Total assets less current liabilities			352,986	238,552
Creditors: amounts falling due after one year	19	82,069		68,897
Provisions for liabilities and charges	20	63,415		50,725
			145,484	119,622
Net assets			207,502	118,930
Capital and reserves				
Called up share capital	21		23,554	21,640
Share premium account	22		177,101	80,613
Capital redemption reserve	22		119	13
Profit and loss account	22		6,449	16,481
Shareholders' funds			207,223	118,747
Minority interests – equity			279	183
			207,502	118,930
Shareholders' funds				
Equity shareholders' funds			158,659	69,583
Non-equity shareholders' funds			48,564	49,164
			207,223	118,747

The financial statements were approved by the Board of Directors on 16th December 1996.

A H Coe
Director

The accounting policies on pages 36 and 37 and notes on pages 42 to 58 form part of these financial statements.

Company balance sheet

At 30th September 1996	Notes	1996 £000	1996 £000	Restated 1995 £000
Fixed assets				
Tangible assets	11		32,413	22,383
Investments	12		112,558	76,352
			144,971	98,735
Current assets				
Stocks	13	697		511
Debtors: amounts falling due within one year	14	267,485		242,441
Debtors: amounts falling due after one year	15	45,769		27,028
Cash and deposits	17	320,775		207,938
		634,726		477,918
Creditors: amounts falling due within one year	18	422,111		317,322
Net current assets			212,615	160,596
Total assets less current liabilities			357,586	259,331
Creditors: amounts falling due after one year	19	8,605		575
Provisions for liabilities and charges	20	823		1,664
			9,428	2,239
Net assets			348,158	257,092
Capital and reserves				
Called up share capital	21		23,554	21,640
Share premium account	22		177,101	80,613
Capital redemption reserve	22		119	13
Other reserves	22		51,175	51,175
Profit and loss account	22		96,209	103,651
			348,158	257,092
Shareholders' funds				
Equity shareholders' funds			299,594	207,928
Non-equity shareholders' funds			48,564	49,164
			348,158	257,092

The financial statements were approved by the Board of Directors on 16th December 1996.

A H Coe
Director

The accounting policies on pages 36 and 37 and notes on pages 42 to 58 form part of these financial statements.

Group cash flow statement

Year ended 30th September 1996	Notes	1996 £000	1996 £000	Restated 1995 £000
Net cash inflow from operating activities	24		111,218	95,018
Returns on investments and servicing of finance				
Interest received		19,988		11,838
Interest paid		(5,440)		(5,570)
Preference dividends paid		(3,220)		(3,226)
Interest element of finance leases		(2,100)		(726)
Minority interests		(127)		3
Net cash inflow from returns on investments and servicing of finance			9,101	2,319
Tax			(10,137)	(18,375)
Capital expenditure and financing activities				
Purchase of tangible fixed assets		(42,116)		(101,708)
Purchase of fixed asset investments		(52)		(101)
Sale of tangible fixed assets		8,295		2,318
Sale of fixed asset investments		222		–
Net cash outflow from capital expenditure and financing activities			(33,651)	(99,491)
Acquisitions				
Purchase of subsidiary undertakings		(18,350)		(41,384)
Acquisition expenses		(2,337)		(786)
Cash at bank and in hand acquired with subsidiaries		8,509		5,931
Net cash outflow from acquisitions			(12,178)	(36,239)
Equity dividends paid			(17,101)	(15,814)
Cash inflow/(outflow) before use of liquid resources and financing			47,252	(72,582)
Management of liquid resources				
Movement on term deposits		(151,953)		41,912
Purchase of securities under managed investment		(14,566)		(8,664)
Sale of securities under managed investment		9,591		8,553
Net cash (outflow)/inflow from management of liquid resources			(156,928)	41,801
Financing				
Issue of shares		100,628		866
Expenses paid in connection with share issues		(2,120)		–
Loan repayments		(130)		(15,707)
New bank loan		–		99,625
Capital element of finance lease rental payments		(15,012)		(459)
Net cash inflow from financing			83,366	84,325
(Decrease)/increase in cash in the year	25		(26,310)	53,544

The accounting policies on pages 36 and 37 and notes on pages 42 to 58 form part of these financial statements.

Notes to the financial statements

1) Segmental information

	Total 1996 £000	Restated Total 1995 £000	Tour operating 1996 £000	Restated Tour operating 1995 £000	Retail 1996 £000	Retail 1995 £000
Turnover						
United Kingdom	950,962	923,490	793,874	788,533	157,088	134,957
Scandinavia						
– continuing	484,609	386,772	484,609	386,772	–	–
– acquisitions	236,723	–	236,723	–	–	–
Canada						
– continuing	102,543	7,529	102,543	7,529	–	–
– acquisitions	4,809	–	4,809	–	–	–
Inter company elimination	(61,795)	–	(61,795)	–	–	–
	1,717,851	1,317,791	1,560,763	1,182,834	157,088	134,957

Inter company elimination relates to Scandinavian acquisitions.

	Total 1996 £000	Restated Total 1995 £000	Tour operating 1996 £000	Restated Tour operating 1995 £000	Retail 1996 £000	Retail 1995 £000
Profit before interest and tax						
United Kingdom	41,303	23,814	36,213	20,942	5,090	2,872
Scandinavia						
– continuing	30,007	26,614	30,007	26,614	–	–
– acquisitions	3,555	–	3,555	–	–	–
Canada						
– continuing	2,401	(375)	2,401	(375)	–	–
– acquisitions	(461)	–	(461)	–	–	–
	76,805	50,053	71,715	47,181	5,090	2,872
Net interest receivable						
United Kingdom	9,243	11,060	5,592	6,900	3,651	4,160
Scandinavia						
– continuing	1,510	(1,559)	1,510	(1,559)	–	–
– acquisitions	(621)	–	(621)	–	–	–
Canada						
– continuing	(126)	(131)	(126)	(131)	–	–
– acquisitions	15	–	15	–	–	–
	10,021	9,370	6,370	5,210	3,651	4,160
Profit before tax						
United Kingdom	50,546	34,874	41,805	27,842	8,741	7,032
Scandinavia						
– continuing	31,517	25,055	31,517	25,055	–	–
– acquisitions	2,934	–	2,934	–	–	–
Canada						
– continuing	2,275	(506)	2,275	(506)	–	–
– acquisitions	(446)	–	(446)	–	–	–
	86,826	59,423	78,085	52,391	8,741	7,032
Net assets						
United Kingdom	111,802	45,364	94,446	30,290	17,356	15,074
Scandinavia	91,197	70,515	91,197	70,515	–	–
Canada	4,503	3,051	4,503	3,051	–	–
	207,502	118,930	190,146	103,856	17,356	15,074

2) Cost of sales and net operating expenses

	Continuing operations 1996 £000	Acquisitions 1996 £000	Total 1996 £000	Restated Total 1995 £000
Cost of sales	1,280,979	207,979	1,488,958	1,171,643
Net operating expenses				
Selling costs	16,085	661	16,746	11,932
Administrative expenses	82,787	18,343	101,130	71,849
Other charges	22,210	11,455	33,665	17,895
	121,082	30,459	151,541	101,676

3) Net interest receivable

	1996 £000	1995 £000
Interest payable on:		
– bank borrowings	7,782	3,982
– other borrowings	1,167	690
Finance charges in respect of finance leases	2,100	726
	11,049	5,398
Bank interest receivable	21,070	14,768
	10,021	9,370

4) Profit on ordinary activities before tax

The profit on ordinary activities is stated after charging:

	1996 £000	1995 £000
Auditors' remuneration		
– audit services	407	355
Depreciation of tangible fixed assets		
– owned	28,759	19,944
– held under finance leases	159	219
Operating lease payments		
– hire of aircraft and aircraft spares	63,164	48,681
– hire of other plant and machinery	876	591
– other	34,196	28,242

In addition to fees paid to the auditors for audit services, fees for non-audit services amounted to £985,000 (1995: £207,000).

5) Tax on profit on ordinary activities

The tax charge is based on the profit for the year and is made up as follows:

	1996 £000	Restated 1995 £000
United Kingdom:		
Corporation tax	10,488	3,894
Deferred tax	3,490	7,324
	13,978	11,218
Overseas:		
Corporation tax	5,868	3,038
Deferred tax	2,591	1,465
Tax on share of (losses)/profits of associated companies	142	700
	22,579	16,421
Adjustments in respect of prior year:		
United Kingdom:		
Corporation tax	(390)	(80)
Deferred tax	(488)	42
	21,701	16,383

Notes to the financial statements

6) Profit for the financial year

The Parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The profit after tax of the Company amounted to £17,478,000 (1995 as restated: £106,453,000). A substantial part of the 1995 profit arose from the inter Company transfer of shareholdings in Group companies.

7) Dividends

	1996 £000	1995 £000
Equity dividends: ordinary		
Interim dividend of 3.25p per share paid 29th July 1996 (1995: 3p)	4,411	3,416
Proposed final dividend of 12.75p per share payable 17th February 1997 (1995: 11p)	17,308	12,690
	21,719	16,106
Non-equity dividends: convertible cumulative preference dividend of 6.375p per share (1995: 6.375p per share)		
3.1875p per share paid 1st April 1996	1,610	1,613
3.1875p per share payable 1st October 1996	1,591	1,610
	3,201	3,223
	24,920	19,329

8) Earnings per share

Basic earnings per ordinary share is based on the profit for the financial year, after deducting minority interests and preference dividends, of £61,701,000 (1995 as restated: £39,816,000) and on 125,322,221 (1995: 113,940,948) ordinary shares of 10p each, being the weighted average number of ordinary shares in issue during the year ended 30th September 1996.

Fully diluted earnings per ordinary share is based on adjusted earnings of £65,572,000 (1995 as restated: £43,842,000) and on 143,709,985 (1995: 133,813,856) ordinary shares of 10p each which takes account of all outstanding share options and the conversion of the convertible cumulative preference shares.

9) Directors and employees

Staff costs during the year were as follows:

	1996 £000	1995 £000
Wages and salaries	163,872	107,119
Social security costs	20,786	14,471
Other pension costs	6,801	3,874
	191,459	125,464

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

	1996 Number	1995 Number
Tour operating	7,548	5,899
Travel retailing	4,650	3,997
	12,198	9,896

9) **Directors and employees** continued

The ranges of Directors' emoluments, excluding pension contributions, were as follows:

	1996 number	1995 number
Up to £5,000	2	–
£15,001 – £20,000	2	1
£20,001 – £25,000	–	1
£30,001 – £35,000	2	2
£35,001 – £40,000	1	–
£170,001 – £175,000	–	2
£180,001 – £185,000	–	1
£200,001 – £205,000	–	1
£215,001 – £220,000	–	1
£260,001 – £265,000	–	1
£265,001 – £270,000	1	–
£275,001 – £280,000	2	–
£285,001 – £290,000	1	–
£335,001 – £340,000	–	1
£385,001 – £390,000	1	–
£465,001 – £470,000	1	–
£575,001 – £580,000	1	–

Further information concerning Directors' emoluments and details of shareholdings and options is disclosed in the Remuneration Committee report on pages 29 to 33.

10) **Prior year adjustment**

The Group policy for providing for the cost of non revenue earning flights at the end of a season was changed during the year. Previously, the cost of these flights ("empty legs") was charged against profits as they were incurred. For the financial year ended 30th September 1996 and for future years the policy has been changed in order to accrue evenly throughout the season the cost of such flights. The Directors consider that the new policy provides a fairer presentation of the result and of the financial position of the Group. The comparative figures in the primary statements and notes have been restated to reflect the new policy.

The effects of the change in policy have been to increase the Group and Company profit before tax in the current year by £1,727,000 and £2,413,000 respectively. The effects of the change in policy on the prior year are stated below:

Profit and loss account	The Group 1995 £000	The Company 1995 £000
Decrease in cost of sales	357	409
Tax	(120)	(135)
Increase in profit for the financial year	237	274
Balance sheet		
Debtors falling due within one year:		
Current tax	–	2,927
Creditors falling due within one year:		
Trade creditors	(12,233)	(8,870)
Current tax	3,869	–
Decrease in net assets	(8,364)	(5,943)

Notes to the financial statements

11) Tangible fixed assets

The Group	Total £000	Freehold land and buildings £000	Short leaseholds £000	Aircraft and aircraft spares £000	Cruise ships £000	Other fixed assets £000
Cost						
At 1st October 1995	291,461	54,743	33,778	44,920	61,922	96,098
Additions	40,624	1,077	3,999	10,138	2,604	22,806
Acquisition of subsidiary undertakings	67,863	9,785	341	41,844	–	15,893
Exchange differences	1,227	(1,735)	24	1,212	–	1,726
	401,175	63,870	38,142	98,114	64,526	136,523
Disposals	16,121	120	727	9,340	–	5,934
At 30th September 1996	**385,054**	**63,750**	**37,415**	**88,774**	**64,526**	**130,589**
Depreciation						
At 1st October 1995	93,520	8,914	23,202	7,467	1,574	52,363
Provided in year	28,918	1,735	2,570	5,338	4,770	14,505
Acquisition of subsidiary undertakings	13,235	78	147	439	–	12,571
Exchange differences	1,041	408	212	(41)	–	462
	136,714	11,135	26,131	13,203	6,344	79,901
Disposals	8,088	8	481	2,783	–	4,816
At 30th September 1996	**128,626**	**11,127**	**25,650**	**10,420**	**6,344**	**75,085**
Net book value at 30th September 1996	**256,428**	**52,623**	**11,765**	**78,354**	**58,182**	**55,504**
Net book value at 30th September 1995	197,941	45,829	10,576	37,453	60,348	43,735

The Company	Total £000	Freehold land and buildings £000	Short leaseholds £000	Aircraft and aircraft spares £000	Cruise ships £000	Other fixed assets £000
Cost						
At 1st October 1995	42,472	2,589	2,233	–	–	37,650
Additions	16,040	–	640	–	–	15,400
	58,512	2,589	2,873	–	–	53,050
Disposals	727	–	257	–	–	470
At 30th September 1996	**57,785**	**2,589**	**2,616**	**–**	**–**	**52,580**
Depreciation						
At 1st October 1995	20,089	–	669	–	–	19,420
Provided in year	5,581	32	169	–	–	5,380
	25,670	32	838	–	–	24,800
Disposals	298	–	96	–	–	202
At 30th September 1996	**25,372**	**32**	**742**	**–**	**–**	**24,598**
Net book value at 30th September 1996	**32,413**	**2,557**	**1,874**	**–**	**–**	**27,982**
Net book value at 30th September 1995	22,383	2,589	1,564	–	–	18,230

11) Tangible fixed assets continued

The net book value of finance leases included above is made up as follows:

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Land and buildings	5,389	5,320	–	–
Aircraft spares	–	139	–	–
Other fixed assets	–	154	–	514
	5,389	5,613	–	514

12) Fixed asset investments

The Group	Total £000	Associated undertakings £000	Other investments £000
At 1st October 1995	4,957	4,068	889
Additions	52	–	52
Disposals	(209)	(117)	(92)
Exchange differences	(177)	(222)	45
Share of losses of associated undertakings	(689)	(689)	–
	3,934	3,040	894
Transfer to provisions (see note 20)	2,571	2,571	–
At 30th September 1996	6,505	5,611	894

The investment in associated undertakings at 30th September 1996 represents a 50% equity interest in Tenerife Sol SA, a non listed hotel operator, incorporated and operating in Spain.

Other investments at net book amount include:

	1996 £000	1995 £000
Investments listed on a recognised investment exchange	107	152
Miscellaneous trade investments	787	737
	894	889

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

The Company	Shares in Group undertakings £000
Cost and net book value	
At 1st October 1995	76,352
Additions	36,206
At 30th September 1996	112,558

The additions during the year primarily arise from a change in ownership of a subsidiary undertaking within the Group.

A list of principal subsidiary undertakings is shown in note 32. All of the subsidiary undertakings have been consolidated in the Group financial statements.

Notes to the financial statements

12) Fixed asset investments continued

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

The BTN Finance Company, which commenced its activities on 12th July 1995, 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 period to 31st March 1996 and management accounts for the period to 30th September 1996.

The results of Simon Spies Holding A/S ("Spies") and Alba Tours International Inc. ("Alba"), both acquired during the year, have been consolidated with effect from 15th February 1996 and 6th August 1996 respectively. Both acquisitions have been accounted for by the acquisition method of accounting and are as follows:

Subsidiary undertaking	Profit after tax for the financial year ended 31st August 1995 £000	Loss after tax for the financial year ended 31st December 1995 £000	Profit/(loss) after tax from previous financial year end to date of acquisition £000	Profit/(loss) after tax from date of acquisition to 30th September 1996 £000
Spies	–	(25,263)	(4,795)	**2,201**
Alba	170	–	777	**(268)**

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

	Alba Book and fair value to the Group £000	Spies Book value £000	Spies Alignment of accounting policy £000	Spies Fair value adjustment £000	Total Fair value to the Group £000
Fixed assets	166	54,992	–	(530)	**54,628**
Stock	–	4,532	–	–	**4,532**
Debtors	1,808	29,540	3,097	–	**34,445**
Cash and deposits	3,356	5,153	–	–	**8,509**
Creditors	(5,490)	(93,532)	(3,266)	–	**(102,288)**
Finance leases	–	(15,040)	–	–	**(15,040)**
Maintenance reserves	–	(10,985)	–	–	**(10,985)**
Net assets	(160)	(25,340)	(169)	(530)	**(26,199)**
Goodwill					**43,101**
Consideration					**16,902**

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

	Alba £000	Spies £000	Prior years £000	Total £000
Cash	9,697	9,815	(1,162)	18,350
Provision against Premiair A/S	–	(3,785)	–	(3,785)
Costs	397	1,940	–	2,337
	10,094	7,970	(1,162)	16,902

As a consequence of the Group's acquisition of Spies, the Group acquired the remaining 50% of the equity share capital of Premiair A/S. At the date of acquisition the Group held a provision against the net liabilities of Premiair A/S of £3,785,000 (see note 20).

13) Stocks

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Goods held for resale	2,954	2,868	697	511
Airline consumables	3,867	715	–	–
	6,821	3,583	697	511

14) Debtors: amounts falling due within one year

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Trade debtors	38,218	27,910	2,488	8,465
Amounts owed by subsidiary undertakings	–	–	226,737	201,681
Amounts owed by associated undertakings	–	605	–	–
Other debtors	32,542	21,830	8,380	6,169
Deposits and prepayments	102,865	62,985	29,880	21,574
Current tax	–	–	–	4,552
	173,625	113,330	267,485	242,441

15) Debtors: amounts falling due after one year

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Amounts owed by associated undertakings	–	6,639	–	–
Advance corporation tax recoverable	–	–	3,464	1,159
Other debtors	6,159	5,607	96	–
Deposits and prepayments	56,114	43,058	42,209	25,869
	62,273	55,304	45,769	27,028

Notes to the financial statements

16) Current asset investments

	The Group 1996 £000	The Group 1995 £000
At 1st October	4,752	4,679
Additions	14,566	8,664
	19,318	13,343
Disposals	9,591	8,556
	9,727	4,787
Provisions	–	35
At 30th September	9,727	4,752
Current asset investments comprise:		
Listed:		
UK government securities	2,765	1,564
Other UK investments	4,564	2,188
Investments listed overseas	400	500
	7,729	4,252
Unlisted:		
Certificates of deposit	1,998	500
	9,727	4,752

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

17) Cash and deposits

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Cash at bank and in hand	111,547	142,416	28,027	68,431
Term deposits	314,041	162,088	292,748	139,507
	425,588	304,504	320,775	207,938

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

18) Creditors: amounts falling due within one year

	The Group 1996 £000	Restated The Group 1995 £000	The Company 1996 £000	Restated The Company 1995 £000
Loans and overdrafts (see note 19)	35,227	35,281	–	–
Trade creditors	211,306	189,181	46,511	42,638
Amounts owed to subsidiary undertakings	–	–	256,467	185,607
Amounts owed to associated undertakings	–	3,828	–	–
Current tax	17,812	8,247	452	–
Social security and other taxes	6,692	5,433	2,361	2,190
Other creditors	49,677	13,860	5,627	5,442
Dividends	18,899	14,300	18,899	14,300
Accruals and deferred income	80,946	64,109	14,049	8,976
Amounts due under finance leases (see note 19)	601	595	–	272
Revenue received in advance	166,821	110,985	77,745	57,897
	587,981	445,819	422,111	317,322

19) Creditors: amounts falling due after one year

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Loans (see below)	43,760	43,958	–	–
Amounts owed to subsidiary undertakings	–	–	–	53
Other creditors	14,356	5,839	–	218
Accruals and deferred income	16,809	12,683	8,605	–
Amounts due under finance leases	7,144	6,417	–	304
	82,069	68,897	8,605	575

Finance leases				
Total outstanding	7,745	7,012	–	576
Less: amounts falling due within one year	601	595	–	272
Amounts falling due after one year	7,144	6,417	–	304
Analysis of repayments				
Between one and two years	714	1,241	–	304
Between two and five years	2,369	1,174	–	–
After five years	4,061	4,002	–	–
	7,144	6,417	–	304

Loans and overdrafts	The Group 1996 £000	The Group 1995 £000
Bank loans	70,057	70,174
Unsecured loan notes	8,930	9,000
Overdrafts	–	65
	78,987	79,239
Less: amounts falling due within one year	35,227	35,281
Amounts falling due after one year	43,760	43,958
Analysis of repayments		
Between one and two years	8,768	8,966
Between two and five years	34,992	34,992
	43,760	43,958

Of the bank loans £69,984,000 are unsecured loans, with a floating interest rate, denominated in Greek Drachma. 50% was acquired by a subsidiary undertaking of the Company on 7th October 1996 reducing the external balance of the loans to £34,992,000. The remaining 50% is repayable on 5th July 2000. The capital repayments are hedged and the loans are 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 the profit and loss account over the term of the loans.

The interest rate on the unsecured loan notes of £8,930,000 is payable at bank base rate.

Notes to the financial statements

20) Provisions for liabilities and charges

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Deferred tax	20,294	17,460	823	1,664
Other provisions	43,121	33,265	–	–
	63,415	50,725	823	1,664

Deferred tax	The Group 1996 £000	The Company 1996 £000
At 1st October 1995	17,460	1,664
Charged during the year	5,593	8
Exchange differences	395	–
Advance corporation tax	(3,154)	(849)
At 30th September 1996	20,294	823

Deferred tax, for which full provision has been made in the financial statements, comprises:

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Accelerated capital allowances	22,631	17,418	1,085	331
Short term timing differences	2,392	1,617	1,003	1,749
	25,023	19,035	2,088	2,080
Less: advance corporation tax	4,729	1,575	1,265	416
	20,294	17,460	823	1,664

Other provisions	Total 1996 £000	Pension provisions 1996 £000	Aircraft maintenance provisions 1996 £000	Other 1996 £000
At 1st October 1995	33,265	5,194	26,860	1,211
Acquired with subsidiary undertaking	10,985	–	10,985	–
Provided during the year	29,999	811	29,188	–
Transferred from fixed asset investments (see note 12)	2,571	–	–	2,571
	76,820	6,005	67,033	3,782
Utilised in the year	(30,500)	(88)	(30,412)	–
Exchange differences	586	318	265	3
Transfer to goodwill (see note 12)	(3,785)	–	–	(3,785)
At 30th September 1996	43,121	6,235	36,886	–

The other provision represented the Group's share of a deficiency in net assets within Premiair A/S up to 14th February 1996, the date upon which Premiair A/S became a wholly owned subsidiary undertaking.

21) Share capital

Authorised	1996 £000	1995 £000
17,463,769 (1995: 16,935,357) unclassified shares of 20p each	3,493	3,387
49,899,012 (1995: 50,518,559) 6.375p (net) convertible cumulative preference shares of 20p each	9,980	10,104
199,223,388 (1995: 171,792,168) ordinary shares of 10p each	19,922	17,179
	33,395	30,670

Allotted called up and fully paid	1996 £000	1995 £000
49,899,012 (1995: 50,518,559) 6.375p (net) convertible cumulative preference shares of 20p each	9,980	10,104
135,746,223 (1995: 115,357,452) ordinary shares of 10p each	13,574	11,536
	23,554	21,640

Authorised share capital

At an Extraordinary General Meeting held on 18th March 1996 the Company's authorised share capital was increased to £33,394,895 by the creation of an additional 27,248,950 ordinary shares of 10p each.

As a result of the consolidation, sub-division and redemption referred to below in relation to the conversion during the year of 619,547 convertible cumulative preference shares of 20p each, the number of authorised convertible cumulative preference shares decreased by 619,547, the number of authorised ordinary shares of 10p each increased by 182,270 and the number of authorised unclassified shares of 20p each increased by 528,412.

Preference shares

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

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

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

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

Notes to the financial statements

21) Share capital continued

Allotments during the year

On 4th April 1996, 20,000,000 ordinary shares were allotted to Carnival Corporation for a cash consideration of £5 per share under the terms of the subscription agreement dated 23rd February 1996.

On 10th June 1996, a total of 619,547 convertible cumulative preference shares of 20p each, in respect of which conversion notices had been given pursuant to the Company's Articles of Association, were consolidated and subdivided into 182,270 ordinary shares of 10p each and 10,568,240 non voting deferred shares of 1p each. On 29th July 1996 the 10,568,240 1p non voting deferred shares were redeemed for 1p in aggregate.

In addition, during the year, 191,147 ordinary shares were allotted under the terms of the Airtours plc Share Option Scheme (1986) for an aggregate cash consideration of £585,714 and 15,354 ordinary shares were allotted under the terms of the Airtours plc Savings-Related Share Option Scheme for an aggregate cash consideration of £42,223.

Contingent rights to the allotment of shares

The Company has not granted any new share options during the year.

At 30th September 1996 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
1st July 1991	106.06p	190,538	–	–
5th July 1991	115.68p	22,297	192,565	–
15th July 1992	203.24p	–	273,649	–
9th August 1993	373.92p	–	345,604	–
9th August 1993	275.00p	–	–	762,754
5th August 1994	448.50p	240,000	1,070,000	–
14th July 1995	407.00p	–	300,000	–
16th July 1995	409.00p	–	50,000	–

Options are normally exercisable in the following periods:

Class 1: between three years and ten years following the date of grant.
Class 2: between five years and ten years following the date of grant.
Savings related: between five years and five years and six months from the commencement date of the savings contract.

The exercise of Class 2 options is also dependent upon the percentage increase in earnings per share of the Company calculated 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 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.

22) Reserves

The Group	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
At 1st October 1995 (as previously reported)	80,613	13	–	24,845
Prior year adjustment (see note 10)	–	–	–	(8,364)
At 1st October 1995 (as restated)	80,613	13	–	16,481
Retained profit for the year	–	–	–	39,982
Goodwill written off (see note 12)	–	–	–	(43,101)
Premium on allotments during the year	96,488	–	–	–
Transfer on redemption	–	106	–	–
Exchange differences	–	–	–	(6,913)
At 30th September 1996	**177,101**	**119**	**–**	**6,449**

The Company	Share premium account £000	Capital redemption reserve £000	Other reserves £000	Profit and loss account £000
At 1st October 1995 (as previously reported)	80,613	13	51,175	109,594
Prior year adjustment (see note 10)	–	–	–	(5,943)
At 1st October 1995 (as restated)	80,613	13	51,175	103,651
Retained loss for the year	–	–	–	(7,442)
Premium on allotments during the year	96,488	–	–	–
Transfer on redemption	–	106	–	–
At 30th September 1996	**177,101**	**119**	**51,175**	**96,209**

The cumulative amount of goodwill arising from acquisitions in current and prior years which has been written off to Group reserves amounts to £194,141,000 (1995 as restated: £151,040,000).

23) Reconciliation of movements in shareholders' funds

	1996 £000	Restated 1995 £000
Profit for the financial year	64,902	43,039
Dividends	(24,920)	(19,329)
	39,982	23,710
Exchange differences	(6,913)	4,415
Issue of shares (net of expenses)	98,508	866
Goodwill written off to reserves	(43,101)	(47,075)
Net increase/(decrease) in shareholders' funds	88,476	(18,084)
Shareholders' funds at 1st October (1st October 1995 originally £127,111,000 before prior year adjustment of £8,364,000)	118,747	136,831
Shareholders' funds at 30th September	**207,223**	**118,747**

Notes to the financial statements

24) Net cash inflow from operating activities

	1996 £000	Restated 1995 £000
Operating profit	76,805	50,053
Losses/(profits) of associated undertakings	547	(5,581)
Depreciation charges	28,918	20,163
Provision against investments	–	38
Profit on sale of tangible fixed assets	(263)	(303)
(Profit)/loss on sale of investments	(13)	3
Decrease/(increase) in stocks	1,520	(689)
(Increase)/decrease in debtors	(31,738)	5,839
Increase in creditors	35,943	17,404
(Decrease)/increase in provisions	(501)	8,091
Net cash inflow from operating activities	111,218	95,018

25) Reconciliation of net cash flow to movement in net funds

	1996 £000	1995 £000
(Decrease)/increase in cash in the year	(26,310)	53,544
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	15,142	(83,459)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	156,928	(41,801)
Changes in net debt resulting from cash flows	145,760	(71,716)
Loans and finance leases acquired with subsidiary undertakings	(15,040)	(1,606)
Transfer to accruals	–	29,641
New unsecured loan notes	–	(9,000)
Provisions	–	(38)
Exchange differences	(5,142)	2,074
Movement in net funds in the year	125,578	(50,645)
Net funds at 1st October	223,005	273,650
Net funds at 30th September	348,583	223,005

26) Analysis of net funds

	At 1st October 1995 £000	Cash flow £000	Acquisitions £000	Other non-cash changes £000	Exchange movements £000	30th September 1996 £000
Cash at bank and in hand	142,416	(26,378)	–	–	(4,491)	111,547
Term deposits	162,088	151,953	–	–	–	314,041
Overdrafts	(65)	68	–	–	(3)	–
Debt due within one year	(35,216)	130	–	(185)	44	(35,227)
Debt due after one year	(43,958)	–	–	185	13	(43,760)
Finance leases	(7,012)	15,012	(15,040)	–	(705)	(7,745)
Current asset investments	4,752	4,975	–	–	–	9,727
	223,005	145,760	(15,040)	–	(5,142)	348,583

27) Effects of acquisitions

The subsidiary undertakings acquired during the year made the following contributions to, and utilisations of, Group cash flow:

	Alba £000	Spies £000	Total £000
Cash (outflow)/inflow from operating activities	(2,178)	21,287	19,109
Returns on investments and servicing of finance	14	(985)	(971)
Tax	(1)	(112)	(113)
Capital expenditure	(16)	380	364
Cash (outflow)/inflow before financing	(2,181)	20,570	18,389
Financing	–	(14,009)	(14,009)
(Decrease)/increase in cash in the period	(2,181)	6,561	4,380

28) Capital commitments

	The Group 1996 £000	The Group 1995 £000	The Company 1996 £000	The Company 1995 £000
Contracted but not provided in these financial statements	23,913	1,895	23,400	200

Of the capital commitments £23,400,000 represents the balance of the purchase price of the MS Song of Norway, the Company's third cruise ship.

29) Contingent liabilities and guarantees

At 30th September 1996 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 £180,242,000 (1995: £167,000,000). The Group enters into foreign exchange contracts to hedge future foreign currency requirements. No liabilities are expected to arise on these contracts.

Airtours plc provides guarantees to certain of its subsidiary undertakings. No liabilities are expected to arise under these guarantees.

30) 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 £2,642,000 (1995: £1,704,000). 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 £1,354,000 (1995: £912,000). 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.

31) Leasing commitments

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

The Group	Land and buildings 1996 £000	Land and buildings 1995 £000	Aircraft and aircraft spares 1996 £000	Aircraft and aircraft spares 1995 £000	Other 1996 £000	Other 1995 £000
Expiring in one year or less	3,939	2,923	17,673	7,216	1,905	62
Expiring between one and five years	14,581	7,070	24,855	19,438	510	1,498
Expiring in five years or more	17,914	20,549	42,337	25,417	–	1
	36,434	30,542	84,865	52,071	2,415	1,561

The Company						
Expiring in one year or less	–	–	–	–	264	52
Expiring between one and five years	–	–	–	–	316	27
Expiring in five years or more	274	260	–	–	–	–
	274	260	–	–	580	79

Notes to the financial statements

32) Principal subsidiary undertakings
At 30th September 1996 the Group's principal subsidiary undertakings were:

	Country of incorporation and operation	Proportion held by parent Company (%)	Proportion held by the Group (%)
Tour operators			
Airtours Holidays Limited	England	100	
Eurosites Limited	England	100	
Scandinavian Leisure Group AB	Sweden		100
Alba Tours International Inc	Canada		100
Sunquest West Limited	Canada		100
Sunquest Vacations Limited	Canada		100
Vingresor AB	Sweden		100
Always AB	Sweden		100
Vingreiser A/S	Norway		100
Vingrejser A/S	Denmark		100
Spies Rejser A/S	Denmark		100
Tjaereborg Reiser A/S	Denmark		100
Oy Simon Spies AB	Finland		100
Hotel operators			
Sunwing AB	Sweden		100
Hoteles Vacatio SA	Spain		100
Sunwing Hotels Hellas SA	Greece		100
Sunwing Hotels (Cyprus) Limited	Cyprus		100
Sunwing Hotel (Gambia) Limited	Gambia		100
Cruise operator			
Sun Cruises Limited	England		100
Airlines			
Airtours International Airways Limited	England		100
Premiair A/S	Denmark		100
Travel retailers			
Going Places Leisure Travel Limited	England	100	
Late Escapes Limited	England		100
Agency companies			
Astral Hellas SA	Greece		70
Eurosites A/S	Denmark		100
Eurosites GmbH	Germany		100
Eurosites BV	Holland		100
Viagens Astral SA	Portugal		100
Viajes Astral SA	Spain		100
Viajes Astral Canarias SA	Spain		70
Insurance company			
White Horse Insurance Limited	Guernsey		100
Investment and/or holding companies			
Blue Sea Investments Limited	England	100	
Blue Sea (Overseas) Investments Limited	England		100
The BTN Finance Company	England		50
Canadian Leisure Group Inc	Canada		100
Parkway Holdings BV	Holland		100
Scandinavian Leisure Group Holdings AB	Sweden		100
Scandinavian Leisure Group Leasing A/S	Norway		100

Shareholder information

Analysis of ordinary shareholders

At 30th September 1996 there were 2,636 shareholders registered compared with 3,379 at 30th September 1995.

Category	Number of holders	Ordinary shares held
Individuals	2,337	27,371,168
Carnival (UK) Limited	1	40,000,000
Insurance companies	52	11,571,519
Self-managed pension funds	20	6,476,292
Independent fund managers	173	36,002,798
Overseas fund managers	53	14,324,446
	2,636	135,746,223

Preference shares

The 49,899,012 (1995: 50,518,559) convertible cumulative preference shares are held by 548 (1995: 854) shareholders, who receive dividends in preference to the holders of ordinary shares at a rate of 6.375p (net) per annum.

Financial calendar

Half yearly preference dividend paid	1st April 1996
Interim results announced	19th June 1996
Interim ordinary dividend paid	29th July 1996
Third quarter results announced	7th August 1996
Half yearly preference dividend paid	1st October 1996
Final results announced	11th December 1996
Transfer books closed	14th January 1997
Annual General Meeting	23rd January 1997
Final ordinary dividend payable	17th February 1997

Shareholders' benefits

Concessionary discounts

Individual registered holders of ordinary shares in the Company are eligible for concessionary discounts of 10% off the published price of any "Airtours" holiday (including the Tradewinds, Cruising and EuroSites brochures). To obtain the discount, which cannot be taken in conjunction with any other offer or promotion, the holiday booking should be made through our shareholders holiday advice telephone line on 01706 232827. 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 ordinary 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.

Five year review

	Note	1996 £000	1995 £000	1994 £000	1993 £000	1992 £000
Profit and loss account						
Turnover		**1,717,851**	1,317,791	971,742	615,563	405,553
Profit on ordinary activities before tax	1	**86,826**	59,423	71,338	43,930	33,130
Tax on profit on ordinary activities	1	**21,701**	16,383	21,683	16,054	10,796
Profit for the financial year	1	**64,902**	43,039	49,386	27,876	22,334
Dividends		**24,920**	19,329	16,875	10,359	6,696
Profit retained	1	**39,982**	23,710	32,511	17,517	15,638
Balance sheet						
Tangible fixed assets		**256,428**	197,941	109,054	38,154	24,790
Investments		**16,232**	9,709	7,521	–	–
Cash and deposits		**425,588**	304,504	291,909	220,615	155,599
Stocks		**6,821**	3,583	2,744	–	–
Debtors		**235,898**	168,634	163,522	105,553	47,045
Creditors	1	**670,050**	514,716	402,008	281,890	170,577
Provisions for liabilities and charges		**63,415**	50,725	35,555	15,089	5,321
Net assets	1	**207,502**	118,930	137,187	67,343	51,536
Statistics						
Basic eps	1,2	**49.23p**	34.94p	46.17p	27.45p	24.39p
Fully diluted eps	1,2	**45.63p**	32.76p	41.79p	26.29p	23.87p
Dividends per ordinary share	2	**16.00p**	14.00p	12.00p	8.81p	7.09p
Net assets per ordinary share	1,2	**152.86p**	103.10p	120.60p	71.39p	54.81p
Ratios						
Dividend cover		3.08	2.50	3.85	3.12	3.44

Notes:
1) The figures for the years 1992 to 1995 have been restated to take account of the prior year adjustment referred to in note 10 to the financial statements.
2) The figures shown for the years 1992 and 1993 have been restated to take account of the Rights Issue to existing shareholders in 1994.

Notice of meeting

Notice is hereby given that the 1997 Annual General Meeting of the Company will be held in the Schipol Suite, Manchester Airport Hilton, Outwood Lane, Ringway, Manchester M90 4WP on Thursday, 23rd January 1997 at 11.30am for the following purposes:

1) To receive the Directors' report, Financial statements and Auditors' report for the year ended 30th September 1996.
2) To declare a final dividend on the ordinary shares.
3) To re-elect as a Director of the Company Mr M M Arison who was appointed during the year.
4) To re-elect as a Director of the Company Mr H S Frank who was appointed during the year.
5) To re-elect as a Director of the Company Mr B C Sandahl who was appointed during the year.
6) To re-elect as a Director of the Company Mr A H Coe who retires as a Director by rotation.
7) To re-elect as a Director of the Company Mr E F Sanderson who retires as a Director by rotation.

As special business, to consider and, if thought fit, pass the following resolutions which will be proposed, in the case of resolutions 9 and 10, as special resolutions.

8) To reappoint the auditors and authorise the Directors to fix the remuneration of the auditors.
9) That the Company's Articles of Association be and they are hereby amended by the deletion of Articles 2.1, 2.2, 4 and 5.1 and the substitution therefore of new Articles 2.1, 2.2, 4 and 5.1 in the form produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification.
10) That:

a) The Directors be empowered pursuant to Section 95(1) of the Companies Act 1985 to allot equity securities (as defined by Section 94(2) of that Act) pursuant to the authority under Section 80 of that Act conferred upon the Directors by ordinary resolution passed on 18th March 1996 as if Section 89(1) of that Act did not apply to the allotment, save that this power shall be limited to:
   (i) the allotment of equity securities in connection with a rights issue; and
   (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £678,976;

   and shall expire at the earlier of the conclusion of the 1998 Annual General Meeting of the Company and the date falling 15 months after the date of the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry.

b) For the purposes of this resolution:
   (1) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the Directors to (i) holders on the register on a fixed record date of ordinary shares in the Company in proportion to their respective holdings and (ii) holders on the register on a fixed record date of the 6.375p (net) convertible cumulative preference shares of 20p each in the Company (on the basis that such shares shall be deemed to have been converted into ordinary shares in the Company in accordance with the provisions of the Company's Articles of Association immediately prior to such record date) but subject in both cases to such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and
   (2) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights.

By order of the Board

D C Burns Secretary
16th December 1996

Registered Office:
Parkway Three
Parkway Business Centre
300 Princess Road
Manchester M14 7QU

1) Members of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote on their behalf. A proxy need not be a member of the Company. A form of proxy is enclosed and members who wish to use it should see that it is deposited, duly completed, with the Company's registrars not less than 48 hours before the time fixed for the meeting.
2) All members are entitled to attend the meeting, but only holders of ordinary shares are entitled to vote on the resolutions to be put to the meeting.
3) The register of Directors' interests in the Company's shares and copies of Directors' service agreements will be available for inspection by members at the registered office of the Company during normal business hours from 16th December 1996 until the date of the meeting and at the place of the meeting from 11.15am until the conclusion of the meeting.
4) A copy of the Company's existing Articles of Association and the Articles of Association as proposed to be amended pursuant to resolution 9 will be available for inspection from 16th December 1996 until the close of the meeting at the offices of The Norton Rose M5 Group, Kempson House, Camomile Street, London EC3A 7AN and at the place of the meeting from 11.15am until the conclusion of the meeting.

Designed and produced by Radley Yeldar (London)


AIRTOURS WORLDWIDE
Having a great time.
See you next year!
Airtours plc
Parkway Three
Parkway Business Centre
300 Princess Road
Manchester M14 7QU
England.