

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

**For the 11-month period ended
30 September 2007**

Company Number: 1450256

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FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Directors' report for the 11-month period ended 30 September 2007

The Directors submit their report and financial statements of First Choice Holidays & Flights Limited for the 11-month period ended 30 September 2007

On 3 September 2007, First Choice Holidays PLC (now First Choice Holidays Limited) merged with the Tourism Division of TUI AG to form TUI Travel PLC. During the period, the Company changed its accounting reference date from 31 October to 30 September to coincide with the accounting reference date of the other companies in the TUI Travel PLC Group of Companies.

Enhanced business review

The package holiday market during 2007 faced challenging trading conditions. However, the Company has continued to see the benefit from greater visibility and brand awareness. The First Choice brand now has a wide representation in the key high street locations and the Company will examine all opportunities to enhance further in the future.

The directors believe that the Company is well equipped to face the fast-changing and challenging environment of 2008 and beyond by capitalising on the strength of the First Choice.

During the period, the Directors managed the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in the First Choice Holidays Limited Group of companies ("First Choice"). Following the merger of First Choice with the Tourism division of TUI AG to form the TUI Travel PLC Group of companies ("TUI Travel") the Directors manage the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in TUI Travel. The Directors of TUI Travel review the Company's risks and uncertainties in the context of the whole Group. The Directors of the Company believe that this review process is appropriate given that the Company's operations are managed in co-ordination with those of the TUI Travel Mainstream Sector UK & Ireland businesses. The principal risks and uncertainties which are common to First Choice, TUI Travel and the Company are

- **Geo-political events and natural disasters** The nature of our business means that we are at risk of geo-political events or natural disasters. It is for this reason that we ensure we operate with a flexible and efficient business model and minimise the reliance on any one destination.
- **Commercial relationships** We have well established and close relationships with our suppliers and spread our risk by not placing over-reliance on any one supplier in any particular area. However, if a relationship was lost or damaged with a major supplier this could have a detrimental effect on our business. The management team meets regularly with suppliers to maintain good working relationships.
- **Information technology** The Company is heavily reliant upon information technology. Investment is being made to ensure that we have advanced and efficient systems in place but there is a risk if there were a major failure – particularly if it were to affect selling systems. Procedures are in place to minimise the time a selling system is unavailable in the event of such a failure.
- **Environmental risk** As a tour operator we use aircraft to take people on holidays, sometimes to countries where tourism is just developing. This does have an impact on the environment and we take our corporate and social responsibilities seriously at every level. We work with the authorities and suppliers in the destinations we serve to ensure that any local environmental impact is minimised in the best interest of the indigenous population.

As the Directors manage the Company in co-ordination with the management of the TUI Travel Mainstream Sector UK & Ireland business, they take the view that analysis using key performance indicators ("KPIs") for the Company alone is not necessary or appropriate for an understanding of the development, performance and positioning of its business.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Directors' report for the 11-month period ended 30 September 2007

Enhanced Business Review (continued)

The development, performance and position of the Mainstream Sector of First Choice Holidays Limited, which includes the Company, is discussed in the Business Review within the First Choice Holidays Limited annual report, which does not form part of this report

Results and dividends

The Company's loss on ordinary activities after taxation for the 11-month period ended 30 September 2007 was £59.5m (year ended 31 October 2006 £21.9m). No dividends were paid in the period (2006 £Nil). The Directors do not recommend payment of a final dividend (2006 £Nil).

Principal activity

The Company's principal activity continues to be that of a tour operator. The results for the period include the following trading names which operate under the same ATOL licence held by First Choice Holidays & Flights Limited:

First Choice
Eclipse
Falcon
Flexi Conference & Incentive
JWT Holidays
2wentys
Sovereign
Sunstart

Directors

The Directors of the Company at the date of this report are:

D Blastland	
A L John	(appointed 15 October 2007)
P J Long	
N G Morris	
E Sutton	(appointed 26 October 2007)
D M Taylor	(appointed 14 April 2008)
A C Woodcraft	

Other Directors who served during the period were:

A D Smith	(resigned 29 February 2008)
N W Longman	(resigned 15 October 2007)

Employee matters

TUI Travel PLC ("TUI Travel"), the intermediate parent company, employs approximately 48,000 people across the Group, based in the UK and throughout the USA, Canada, Africa, Asia, Australia and Continental Europe. Although businesses within the portfolio are at various stages of development and maturity, together we all share common values. The aim is to reward, develop and promote our people in a way that is right for them, taking into account the environment in which they operate.

Our commitment is to:

- Engage employees in our aims and success – and in issues that affect them
- Promote a positive workplace
- Reward them in a way that is relevant to them and reflects their contribution to the Group's success

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Directors' report for the 11-month period ended 30 September 2007

Rewarding people and valuing their contribution

TUI Travel's goal is to have a reward strategy that underpins business objectives within Group-wide principles which provide a framework for local environments. Recognising and rewarding our employees in ways that are effective for them is a key driver for engagement and high performance. Our reward strategy takes into account base pay, competency pay, incentives, benefits and non-cash based rewards. We make every effort to measure the input and results of both individuals and teams. Many UK employees participate in the Share Incentive Plan, giving them an interest in the financial performance of TUI Travel.

Ensuring our employees share our aims and are involved in matters which affect them is a key challenge for us. TUI Travel employs people in many countries around the world – a significant number of whom are engaged on a seasonal basis. We start by employing people we believe share our passion for our customers and products and build engagement through consultation and by providing local and global updates in ways that suit the employees' working environment and culture.

We encourage the participation of employees through frequent 'Work in Partnership' meetings led by senior management. Regular meetings take place with recognised trade unions.

TUI Travel has an extranet website to enhance communications across the whole Group and this now provides a central source where all employees can find both external and internal information about the Sectors and various businesses in the Group. Additionally each Sector has its own tailored approach to communication which reflects its own particular needs.

As a Group we operate in diverse cultures and understand the need to rule out discrimination on any grounds including ethnicity, gender, disability and age. If applicable and possible, alternative suitable employment would be found for any employee who becomes disabled during the course of employment provided that they can be employed in a safe working environment. We continue to develop policies on non-discrimination and inclusiveness in line with best practice and these are incorporated into training for line managers as a key part of induction programmes. Unfair treatment of any employee is not tolerated and a confidential employee hotline is available for all employees worldwide – there is a translation service in place for non-English speaking employees.

Attracting, developing and retaining talent

We continue to be proud of the commitment and dedication of our employees in achieving the levels of service and efficiency which make TUI Travel stand out from its competitors. Every effort is made to encourage and develop employees to realise their maximum potential. We are committed to using the most effective recruitment methods in all countries in which we operate and to build skills and knowledge in ways that suit both the business and our employees.

Retaining key employees is critical to our continued business success. Group-wide talent is reviewed on a regular basis at Board level and our focus is to retain and develop those individuals who will carry our business forward. We actively move people to career opportunities across the Group to enhance the mix of innovative, entrepreneurial and general management skills. In order to meet seasonal demands we continue to move our best front-line staff between retail, overseas representation and airline cabin crew roles. This develops a multi-skilled work force that has year-round experience of working with our customers.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Directors' report for the 11-month period ended 30 September 2007

Directors insurance

The intermediate parent company First Choice Holidays Limited maintained Directors' & Officers' Liability insurance policies on behalf of the Directors of the Company for all wrongful acts up to 3 September 2007. A policy in the name of TUI Travel PLC, the new parent company, covers any wrongful acts occurring after that date.

Policy and practice on payment of suppliers

Due to the nature of the Company's operations and common to the industry as a whole, payments are often made in advance of the provision of goods and services. It is Company policy that payments to suppliers, whether in advance or after the provision of the goods or services, are made on the basis of the terms that have been agreed with them. At the period end, the number of creditor days outstanding was 10 days (2006: 38 days).

Charitable contributions

The Company made charitable donations during the period of £29,525 (2006: £29,267).

Statement as to disclosure of information to auditors

The directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The Company has elected to dispense with the holding of Annual General Meetings, the laying of accounts before the members in General Meeting and the appointment of auditors annually. Accordingly, KPMG Audit Plc will continue in office as auditors.

By Order of the Board



A L John
Director

Date: 1 May 2008

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Statement of Directors' Responsibilities in respect of the Directors' report and the financial statements for the 11-month period ended 30 September 2007

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

to the members of FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

We have audited the financial statements of First Choice Holidays & Flights Limited for the 11-month period ended 30 September 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed. We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of its loss for the 11-month period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- and the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

PO Box 895, 8 Salisbury Square, London, EC4Y 8BB

Date: 1 MAY 2008

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Profit and loss account
For the 11-month period ended 30 September 2007

	Notes	11-month period ended 30 September 2007 £'000	Restated* Year ended 31 October 2006 £'000
Turnover		1,085,488	1,119,145
Cost of sales		(1,066,287)	(1,055,115)
Gross profit		19,201	64,030
Operating expenses	2	(114,288)	(108,324)
Other operating income	12	3,483	3,888
Operating loss		(91,604)	(40,406)
Interest receivable and similar income	4	8,713	4,166
Interest payable and similar charges	5	(206)	(759)
Loss on ordinary activities before taxation	6	(83,097)	(36,999)
Tax credit on loss on ordinary activities	7	23,552	15,125
Loss for the period / year	15	(59,545)	(21,874)

A note on historical cost profits and losses has not been included as part of these financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis

The notes on pages 10 to 23 form part of these financial statements

The results stated above are all derived from continuing operations

* See note 1 for details of the restatement of the 2006 comparative information

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Balance Sheet
At 30 September 2007

	Notes	30 September 2007 £'000	Restated* 31 October 2006 £'000
Fixed assets			
Intangible fixed assets	8	3,290	3,503
Investments	9	2	2
		<u>3,292</u>	<u>3,505</u>
Current assets			
Debtors	10	295,737	367,584
Cash in bank		8,753	8,832
		<u>304,490</u>	<u>376,416</u>
Creditors amounts falling due within one year	11	(349,704)	(366,264)
Net current (liabilities)/assets		<u>(45,214)</u>	<u>10,152</u>
Total assets less current liabilities		<u>(41,922)</u>	<u>13,657</u>
Creditors: Amounts falling due after more than one year	12	(124,700)	(128,183)
Net liabilities		<u>(166,622)</u>	<u>(114,526)</u>
Capital and reserves			
Called up share capital	14	225,061	225,061
Share premium account		269	269
Profit and loss account	15	(391,952)	(339,856)
Equity shareholders' deficit	16	<u>(166,622)</u>	<u>(114,526)</u>

* See note 1 for details of the restatement of the 2006 balance sheet

The notes on pages 10 to 23 form part of these financial statements

The financial statements were approved by the Board on 1 May 2008 and were signed on its behalf by



A L John
Director

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Statement of total recognised gains and losses for the 11-month period ended
30 September 2007**

	11-month period ended 30 September 2007 £'000	Restated Year ended 31 October 2006 £'000
Loss for the period / year	(59,545)	(21,874)
Prior year adjustment (Note 1)	8,750	–
Total gains and losses recognised relating to the financial period	<u>(50,795)</u>	<u>(21,874)</u>

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except as noted below

New Financial Reporting Standards

In these financial statements, the new Financial Reporting Standard FRS 20 Share-based payment, has been adopted for the first time

Change in accounting policies

For the 11-month period ended 30 September 2007, the Company has applied the requirements of FRS20 Share-based payment FRS 20 requires the Company to recognise the cost of share-based remuneration of its employees, notwithstanding that the liability for the settlement rests with the Company's intermediate parent entity, First Choice Holidays Ltd (formerly First Choice Holidays PLC) up to 3 September 2007 and TUI Travel PLC from 3 September onwards

Recognition of the cost of share-based payment creates a charge in the profit and loss account and a credit to the profit and loss reserve. The balance sheet has also required restatement at 31 October 2006 in order to transfer brought forward share-based payment accruals to reserves. Recognition of share-based payment charges up to 31 October 2006 therefore resulted in an increase in net assets and equity at that date of £8.8m. The operating profit and loss charge for the year ended 31 October 2006 has reduced by £2.0m.

Change in accounting presentation

To better reflect the fair value of consideration received, a change in accounting presentation has been adopted in these financial statements to report turnover without deducting sales commissions payable. Previously, turnover has been reported after deduction of sales commissions payable. As a result of this change, turnover and cost of sales in the year ended 31 October 2006 have been restated and have been increased by £81.2m each.

Basis of preparation

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

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Related party transactions

The Company has taken advantage of the exemption contained in Financial Reporting Standard No 8 "Related Party Disclosure" as it is a wholly-owned subsidiary of First Choice Holidays Limited (to 3 September 2007) and of TUI Travel PLC (from 3 September 2007). Therefore the Company has not disclosed transactions or balances with entities that form part of the Group headed by First Choice Holidays Limited or TUI Travel PLC. Other related party transactions are disclosed in note 11.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

Going concern

At 30 September 2007 the Company had a deficiency of net assets of £166.6m and had incurred a loss after taxation in the 11-month period then ended of £59.5m. The accounts are prepared on a going-concern basis as First Choice Holidays Limited has agreed to provide financial support to the Company in order that it can continue to trade and meet its liabilities as they fall due, for as long as it remains a member of the Group.

Group financial statements

The Company is exempt from preparing consolidated financial statements under S228 of the Companies Act 1985 as it is part of a larger company, registered in England and Wales, which is preparing consolidated financial statements drawn up at the same date. These financial statements therefore present information about the Company as an individual undertaking and not about the Group. Consequently, investments in subsidiaries are recorded at cost less amounts written off. Provisions are made for the permanent reductions in value.

Client money received in advance

Client money received at the balance sheet date relating to holidays commencing and flights departing after the period end is included in creditors.

Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover has been arranged, at the contractual rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contractual rate if applicable and any exchange differences arising are taken to the profit and loss account in the season to which the contract relates.

Turnover

Turnover represents the aggregate amount of revenue from inclusive tours and other services supplied to customers in the ordinary course of business. Revenue is recognised on the date of departure and the related costs of distribution and of providing the holidays and flights are charged to the profit and loss account on the same basis. Turnover is stated after deduction of trade discounts.

The turnover and pre-tax loss are attributed to tour operating activities of the Company which were all carried out in the United Kingdom and arise from continuing operations.

Other operating income

Other operating income arising from the sale of trademarks and licences is recognised on a straight-line basis over the licence agreement term.

Deferred taxation

Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Timing differences arise when items of income and expenditure are included in tax computations in periods different from their inclusion in the financial statements.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

Marketing and other direct sales costs

Marketing, advertising and other promotional costs, including those related to the production of brochures, are expensed as incurred

Pensions

The Group operates a defined contribution pension scheme and charges are made to the Company for staff employed. Pension liabilities are charged to the profit and loss account as they fall due.

Goodwill

Goodwill arising on the purchase of businesses (representing the excess of the fair value of the consideration and associated costs given over the fair values of separable net assets acquired) is capitalised. Positive goodwill is amortised to nil by equal instalments over its estimated useful life, normally 20 years.

2 Operating expenses

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Staff costs (see note 3)	45,494	53,378
Amortisation (see note 8)	213	232
Other operating expenses	57,126	46,917
Inter Company management charges	11,455	7,797
	114,288	108,324

Operating expenses include exceptional costs for the period of £39.8m. In the period to 30 September 2007 these included irrecoverable Airline Passenger Duty (APD) and restructuring costs (2006: £6.1m).

3 Staff costs

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows:

	Number of employees	
	2007	2006
Sales and marketing	437	528
Operational	1,416	1,521
Administration and management	435	477
	2,288	2,526

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)****3 Staff costs (continued)**

The aggregate payroll cost of these persons was as follows

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Wages and salaries	38,498	45,730
Social security costs	4,453	4,945
Pension costs	2,543	2,703
	45,494	53,378

Directors' Remuneration

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Emoluments	967	1,001
Company contributions to defined contribution scheme	92	241
	1,059	1,242

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Emoluments of highest paid director	284	320
Pension contribution in respect of highest paid director	19	71
	303	391

Retirement benefits are accruing to the following number of Directors for services in respect of First Choice Holidays & Flights Limited

	Number of Directors 2007	2006
Money purchase pension schemes	4	4

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

Share options

Certain employees of the Company are eligible to participate in share award/option schemes established by the Company's intermediate parent entity – First Choice Holidays Limited (formerly First Choice Holidays PLC) up to 3 September 2007, TUI Travel PLC from 3 September 2007. There are four principal share award/option schemes which are designed to link remuneration to the future performance of the Group: a senior executive performance related share option scheme as well as alternative long-term incentive schemes known as the Restricted Share Plan (RSP), the Deferred Annual Bonus Scheme (DABS) and the Performance Share Plan (PSP). The features of the schemes are set out below.

Deferred Annual Bonus Scheme (DABS)

Under the DABS, the Directors who are members of the scheme are required to defer 25% of their performance-related annual bonus and have the opportunity to defer up to an additional 25% of their bonus into Parent Company Shares (deferred shares). A conditional award of matching shares equal to four times the number of deferred shares is made at the same time.

Deferred shares normally vest after three years and matching shares also vest after three years subject to the achievement of performance conditions, as determined by the Remuneration Committee of the parent company (the Committee). No matching shares will vest unless the annual average of the ratio of the parent company group's (the Group's) consolidated return on invested capital (ROIC) to the weighted average cost of capital (WACC) exceeds 100% over the 3-year period. A hurdle of ROIC, being at least equal to WACC, is used to ensure that the relevant long-term incentive schemes pay out only when shareholder value is being created over the performance periods. If the ROIC/WACC hurdle is met, shares will only vest to the extent to which two further performance conditions are satisfied over the 3-year period as follows:

- Up to three-quarters of the matching shares will vest based on growth in the Group's EPS, before goodwill amortisation and exceptional items, in relation to the growth in the UK Retail Price Index (RPI) as shown in the table below:

Average annual EPS growth in excess of RPI growth	Proportion of matching shares vesting
Below 4%	0%
Between 4% and 13%	On a straight-line basis between 10% and 100%
13% or above	100%

- Up to one-quarter of the matching shares will vest based on the Group's ranking of Total Shareholder Return (TSR) performance in relation to the TSR of the FTSE mid-250 constituents (excluding Investment Trusts) over the three-year period as shown in the table below:

TSR Ranking	Proportion of matching shares vesting
Below median	0%
Between median and upper quartile	On a straight-line basis between 10% and 100%
At or above upper quartile	100%

The Committee considers that EPS and TSR are the key performance conditions that are most relevant to the Group. EPS is a key indicator of the Group's underlying financial performance whilst TSR is a relative measure of shareholder value creation. There will be no re-testing of the performance conditions after the three-year performance period.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

Performance Share Plan (PSP)

Under the PSP, scheme members are eligible to receive conditional awards of shares annually, which vest after a three-year period subject to the achievement of performance conditions, as determined by the Committee. No shares will vest unless the ROIC/WACC hurdle, which is the same hurdle as for the DABS above, is met over the three-year period.

If the ROIC/WACC hurdle is met, shares will only vest to the extent to which a performance condition based on growth in EPS, before goodwill amortisation and exceptional items, in relation to RPI growth over the three-year period is met, as shown in the table below.

Average annual EPS growth in excess of RPI growth	Proportion of shares vesting
Below 4%	0%
Between 4% and 13%	On a straight-line basis between 10% and 100%
13% or above	100%

There will be no re-testing of the performance conditions after the three-year performance period. The Chief Executive will be eligible to receive an annual award equivalent to 100% of his salary and the other Executive Directors will be eligible to receive annual awards of 75% of their respective salaries. The first award under the PSP was made in December 2005.

Restricted Share Plan (RSP)

The final award of restricted shares under the RSP was made in December 2004. Awards were made on an annual basis to plan participants.

The performance condition attached to the RSP are the same as the performance conditions attached to the awards made under the PSP. Therefore, all RSP awards are subject to the ROIC/WACC hurdle and the EPS performance condition described above.

Senior Executive Plan (SEP)

The SEP expired in 2004 and the last award under the plan was made in December 2003. Under the SEP, options with original values of between 150% and 200% of base salary were awarded to certain Directors in October 2002 and December 2003. The performance conditions attached to the vesting of the options are ROIC/WACC hurdle and EPS growth in relation to RPI growth performance condition as described in relation to the DABS above.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

Options granted and outstanding as well as shares awarded and outstanding in respect of unissued ordinary shares, are as follows

	No. of shares	Option exercise price (p)	Date first exercisable
Senior Executive Plan	1,123,288	109 50	3 September 2007
	1,800,739	135 25	9 December 2008
Restricted Share Plan	211,939	N/A	3 September 2007
Deferred Annual Bonus Scheme	528,464	N/A	14 December 2008
	768,568	N/A	13 February 2010
Performance Share Plan	513,301	N/A	14 December 2008
	8,123	N/A	19 June 2009
	928,338	N/A	13 February 2010
	1,619,781	N/A	13 September 2010
	7,502,541		

The number of share options is as follows

	Number of awards/options 2007	Number of awards/options 2006
Outstanding at beginning of the year	14,803,540	12,307,635
Forfeited during the period	(270,334)	(1,432,230)
Exercised during the period	(11,503,840)	(30,714)
Granted during the period	4,473,175	3,958,849
Outstanding at the end of the year	7,502,541	14,803,540

At the end of the period, awards were exercisable over 1,335,227 shares (2006 nil). During the period, the terms of the PSP and RSP have triggered the vesting, and acceleration of the recognition of the cost, of certain schemes due to the acquisition of the parent company, First Choice Holidays Ltd (formerly First Choice Holidays PLC) by TUI Travel PLC.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of fair value of services received is measured using binomial or simulation valuation models, depending on the vesting criteria. The following variables are built into these models at the date of granting of the options:

Information relating to fair values of share option and awards granted	2007	2006	2005	2004
Fair value at measurement date	£2.02 - £2.31	£1.35 - £2.02	£0.92 - £1.32	£1.05 - £1.19
Share price	£2.29 - £2.60	£2.17 - £2.29	£1.52 - £1.53	£1.21 - £1.37
Exercise price	0	0	0	0
Expected volatility	25.7% - 27.8%	23.4% - 27.8%	32.1% - 32.7%	34.3% - 39.4%
Option life	3 years	3 years	3 - 4 years	3 - 5 years
Expected dividends	3.8%	4.0%	4.0%	4.0%
Risk free interest rate	5.35% - 5.64%	4.29% - 4.32%	4.4% - 4.5%	4.6% - 5.2%

Expected volatility is based on historic volatility adjusted for changes to future volatility indicated by publicly available information. Share options are granted under a service condition.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)**

Employee expenses for the period / year relating to share based schemes are

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Share options granted in 2003	1,702	779
Share options granted in 2004	191	443
Share options granted in 2005	652	558
Share options granted in 2006	2,867	2,041
Share options granted in 2007	2,037	—
	<u>7,449</u>	<u>3,821</u>

The future estimated expense for share option schemes outstanding at the balance sheet date is

	30 September 2007 £'000	31 October 2006 £'000
To be incurred within one year	3,026	5,411
To be incurred after more than one year	3,412	78
	<u>6,438</u>	<u>5,489</u>

4 Interest receivable and similar income

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Bank interest receivable	10	24
Net exchange gain	8,703	4,142
	<u>8,713</u>	<u>4,166</u>

5 Interest payable and similar charges

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Bank interest payable	—	58
Interest payable on group undertakings	—	700
Other	206	1
	<u>206</u>	<u>759</u>

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)**

6 Loss on ordinary activities before taxation
is stated after charging

	11-month period ended 30 September 2007 £'000	Restated Year ended 31 October 2006 £'000
Amortisation of goodwill (see note 8)	213	232

In 2007 and 2006, auditors' remuneration was paid by another Group company. The audit fee relating to the Company was as follows

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Fees for the audit of the Company	68	68

Fees paid to the Company's auditors, KPMG Audit Plc, and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements. This is on the basis that such non-audit fees are disclosed in the consolidated financial statements of the Company's intermediate parent company First Choice Holidays Limited.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

7 Taxation

The tax credit in the 30 September 2007 accounts can be summarised as follows

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Tax on loss on ordinary activities:		
(i) Analysis of credit in period		
Current tax		
Amount receivable from fellow group subsidiaries in respect of group relief	23,088	19,993
Adjustment in respect of previous periods		
- permanent	1,448	2,401
Overseas tax payable	—	(63)
Total current tax credit	24,536	22,331
Deferred tax		
Origination and reversal of timing differences:		
- current period UK	—	(7,207)
- adjustment in respect of previous periods	(984)	1
Total deferred tax (see note 13)	(984)	(7,206)
Tax credit on loss on ordinary activities	23,552	15,125

(ii) Factors affecting the current tax credit for the period / year

The current tax credit for the period is lower (2006 higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below

	11-month period ended 30 September 2007 £'000	Restated Year ended 31 October 2006 £'000
Loss on ordinary activities before tax	83,097	36,999
Current tax credit on ordinary activities at the standard rate of UK corporation tax of 30% (2006 30%)	24,929	11,100
Effects of		
- Income/(expenses) not chargeable/(deductible) for tax purposes	(1,841)	1,686
- Capital allowances for period in excess of depreciation	—	2
- Other short term timing differences	—	7,205
- Overseas tax payable	—	(63)
- Adjustment in respect of previous periods	1,448	2,401
Current tax credit for the period	24,536	22,331

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

7 Taxation (continued)**(iii) Factors affecting the future tax charge**

The UK statutory rate of corporation taxation will reduce to 28% with effect from 1 April 2008. The factors that may affect the future tax charge are disclosed in Note 13.

8 Intangible fixed assets**Goodwill
£'000****Cost**

At 1 November 2006 and 30 September 2007

4,645

Provision for amortisation

At 1 November 2006

1,142

Provided in the period

213

At 30 September 2007

1,355

Net book value

At 30 September 2007

3,290

At 31 October 2006

3,503

9 Investments

**30 September
2007
£'000**

**31 October
2006
£'000**

Cost

2

2

The Company's wholly-owned subsidiary, which has ordinary share capital, is set out below

Company	Nature of Business	Country of Registration	Carrying Value £'000
First Choice Aviation Limited	Scheduled Flight Supplier	England & Wales	2

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

10 Debtors

	30 September 2007 £'000	31 October 2006 £'000
Trade debtors	3,226	7,553
Amounts owed by fellow subsidiaries	131,839	180,778
Other debtors	35,557	68,720
Group relief receivable from fellow group undertakings	73,745	55,484
Deferred tax asset (Note 13)	7	991
Prepayments, payments in advance to suppliers and accrued income	51,363	54,058
	<u>295,737</u>	<u>367,584</u>

11 Creditors: amounts falling due within one year

	30 September 2007 £'000	31 October 2006 £'000
Bank overdrafts	47,892	56,729
Trade creditors	43,520	49,296
Revenue received in advance	151,051	118,521
Amount owed to fellow subsidiaries	2,787	32,885
Other creditors	24,101	19,512
Accruals and deferred income	80,353	89,321
	<u>349,704</u>	<u>366,264</u>

During the period, the Company traded with Sunshine Cruises Limited, a joint venture of First Choice Holidays Limited. The Company has charged Sunshine Cruises Limited for flying, administrative services and marketing contributions. At 30 September 2007 a balance due to Sunshine Cruises Limited of £6,588,000 (31 October 2006 £4,610,000) is included within creditors.

12 Creditors: amounts falling due after more than one year

	30 September 2007 £'000	31 October 2006 £'000
Licence	24,700	28,183
Non interest bearing loan due to fellow subsidiary	100,000	100,000
	<u>124,700</u>	<u>128,183</u>

During 2004, the Company sold 11-year licences to fellow subsidiaries within the First Choice Holidays PLC Group for the use of the First Choice brand name and trademark. The licences were sold for a total lump sum receipt of £41.8m. The effective date of sale was 1 April 2004. Revenue is recognised on a straight line basis over 11 years. In the current period £3.5m revenue has been recognised (2006 £3.8m).

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

13 Deferred tax asset

	30 September 2007 £'000	31 October 2006 £'000
At 1 November	991	993
Prior year adjustment (Note 1)	–	7,204
At 1 November restated	991	8,197
Charged in the period (Note 7)	(984)	(7,206)
At 30 September 2007	7	991

The net deferred tax position is as follows

	30 September 2007 £'000	31 October 2006 £'000
Depreciation in excess of capital allowances	7	6
Other short term timing differences	–	985
	7	991

All available tax losses have been utilised by the Group

14 Share capital

	30 September 2007 £'000	31 October 2006 £'000
Authorised		
600,000 deferred ordinary shares of 10p each	60	60
2,250,100,000 ordinary shares at 10p each	225,010	225,010
	225,070	225,070
Issued and fully paid		
600,000 deferred ordinary shares of 10p each	60	60
2,250,006,000 ordinary shares at 10p each	225,001	225,001
	225,061	225,061

15 Reserves

	Profit and loss £'000
1 November 2006 as previously reported	(348,606)
Prior year adjustment (Note 1)	8,750
1 November 2006 as restated	(339,856)
Loss for the period	(59,545)
Share-based payment charges	7,449
At 30 September 2007	(391,952)

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the 11-month period ended 30 September 2007 (continued)

16 Reconciliation of movements in shareholders' deficit

	30 September 2007	Restated 31 October 2006
	£'000	£'000
Loss for the financial period / year	(59,545)	(21,874)
Share-based payment charges	7,449	3,821
Net decrease in shareholders' deficit	(52,096)	(18,053)
Opening shareholders' deficit as previously reporting	(114,526)	(99,361)
Prior year adjustment (note 1)	–	2,888
Opening shareholders' deficit as restated	(114,526)	(96,473)
Closing shareholders' deficit	(166,622)	(114,526)

All shareholders' deficit relates to equity interests

17 Commitments

Operating Leases and Capital Commitments are disclosed in the financial statements of First Choice Office Services Limited (a sister company of First Choice Holidays & Flights Ltd)

18 Ultimate parent company

Until 3 September 2007 First Choice Holidays Limited (formerly First Choice Holidays PLC), a company registered in England and Wales was the ultimate parent company. With effect from 3 September 2007, the ultimate parent company is TUI AG – a company registered in Berlin and Hanover (Federal Republic of Germany). The immediate holding company is First Choice Holidays Limited.

For the 11-month period ended 30 September 2007 First Choice Holidays Limited was the parent undertaking of the largest and smallest group of which the Company is a member and for which consolidated financial statements are drawn up. For future accounting periods, the parent undertaking of the smallest group of which the Company is a member and for which consolidated financial statements are drawn up will be TUI Travel PLC.

The largest group of which the company is a member and for which consolidated financial statements are drawn up is TUI AG.

Copies of the First Choice Holidays Limited and TUI Travel PLC financial statements are available from TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex RH10 9QL.

19 Contingent liabilities

The Company is, at any time, defending a number of actions against it arising in the normal course of business. Provision is made for these actions where this is deemed appropriate.