FIRST CHOICE AIRWAYS LIMITED

Directors' report and financial statements
Registered number 1966273
31 October 2005

CONTENTS

DIRECTORS' REPORT

The Directors present their report and financial statements of First Choice Airways Limited for the year ended 31 October 2005.

Principal activity

The Company's principal activity is the operation of a charter airline. On 29 June 2005, the entire issued share capital of the Company was transferred from Barcelo Destination Services SL to First Choice (Euro) Limited. Barcelo Destination Services SL and First Choice (Euro) Limited are both wholly-owned, directly or indirectly, by First Choice Holidays PLC.

Results and dividends

The Company's profit before taxation for the year was £62.2m *(2004: £61.9m)*.

An interim dividend of £600 per share was paid; the Directors do not recommend payment of a final dividend *(2004: nil)*.

The retained loss for the year transferred to reserves is £14.1m *(2004: profit £40.9m)*.

Directors and their interests

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

D Blastland	
C M Browne	
J R Bunn	
F M Ellacott	(appointed 1 June 2005)
C D Gissing	(appointed 2 May 2006)
P J Long	

Other Directors who served in the year were as follows:

M Drage (resigned on 30 September 2005)

None of the Directors had any beneficial interest in the shares of the Company during the year.

Interests in shares and options

As at 31 October 2005 the interests of the Directors in the share capital of First Choice Holidays PLC, the ultimate parent company, were as follows:

	Ordinary Shares		Options	
	31 October 2005	31 October 2004	Granted	Exercised
Ordinary Shares				
C M Browne	138,929	77,619	87,631	103,921
J R Bunn	*2,631	*1,717	11,184	-

* Shares held in the Share Incentive Plan.

DIRECTORS' REPORT (continued)

For full details on the option schemes, reference should be made to the Annual Report and Accounts of First Choice Holidays PLC.

The interests of P J Long and D Blastland are disclosed in the Annual Report and Accounts of the ultimate parent company First Choice Holidays PLC.

Directors' insurance

The ultimate parent company maintains insurance policies on behalf of all the Directors of the Company against liability arising from negligence, breach of duty and breach of trust in relation to the Company.

Our people

First Choice Holidays PLC ("First Choice"), the ultimate parent company, employs approximately 14,000 people across the Group, of whom 8,600 are based in the UK and 4,200 in Western Europe, the USA and Canada with the remainder being based in Africa, Asia, Australia and Eastern Europe. We have a global portfolio of businesses at various stages of development and maturity which all share common values. The challenge of developing and promoting our people in a way that is right for them, in the environment in which they operate, is currently being addressed.

Attracting, developing and retaining excellent people is critical to the sustainability of our business. Treating employees with empathy and respect – an important element of our commitment to sustainable development – is part and parcel of what we do.

We have a vision to be the "First Choice" for people wanting to work in leisure travel. Achieving this vision helps drive profitable growth across the Company. For us, this means:

- engaging our people in our aims and success - and in issues that affect them;
- promoting a positive workplace; and
- rewarding people in a way that is relevant to them and reflects their contribution to the Group's success.

Rewarding people and valuing their contribution

We encourage the participation of employees in the Group through frequent 'Work in Partnership' meetings, which are led by senior management. Regular meetings also take place with recognised trade unions. We monitor closely the responses from our Staff Survey and adapt and change policies and practices as a result of the comments and views of employees. Employees continue to subscribe to the Group's Employee Share Incentive Plan, giving many of our workforce a shareholding in First Choice and interest in its financial performance.

Our goal is to continue to develop a reward strategy which underpins business objectives within global principles and provides 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 compensation 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.

Ensuring our employees share our aims and are involved in matters which affect them is a key challenge for us. First Choice 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 communication and consultation by providing regular local and global updates in ways that suit the relevant working environment and culture.

DIRECTORS' REPORT (continued)

First Choice has recently established a new extranet website to enhance communications across the whole Group which means that there is now 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 the needs of that particular Sector.

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. In the past year we have developed new policies on non-discrimination and inclusiveness in line with best practice. These are being introduced across the Group and incorporated into training for line managers and will become a key part of the Company induction programmes. Unfair treatment of any employee is not tolerated and a confidential employee hotline is in place across the Group.

Attracting, developing and retaining talent

We recognise that the success of our strategy is built on having the best people to deliver it around the world. 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 the employees.

Investing in leadership capability at senior levels to take the business forward is an area of particular focus and, accordingly, we have developed a Strategic Leadership programme in partnership with an International Business School. The programme, which extends across all Sectors of the Group, builds the skills and capability of those with the greatest responsibility for leadership and strategy. Across the Group investment in the capability of our people is a priority and all employees have had the opportunity to provide feed back on their training needs for the coming year.

Each year all employees of the Company have the opportunity to meet their line manager to discuss their performance over the previous year and make plans for development in the coming year. This update allows individuals to identify training opportunities and understand the role they play in the success of the Company. The Personal Development Update (PDU) process is designed to ensure that each person has objectives which support business plans. It is intended to roll-out the PDU to colleagues across the Group who currently do not take part.

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.

Policy and practice on payment of creditors

It is the Company's policy that payments to suppliers, whether in advance or after the provision of goods and services, are made on the basis of the terms that have been agreed with them.

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. The Company has not calculated the average creditor settlement period as, due to the differing terms in force, any such average would be meaningless.

DIRECTORS' REPORT (continued)

Charitable donations

During the year the Company made charitable donations of £2,000 *(2004 £1,000)*.

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.

On behalf of the Board

J R Bunn
Director
13 JULY 2006

Registered Address:
First Choice House
London Road
Crawley
West Sussex
RH10 9GX

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 of the profit or loss 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 Company 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 to enable them to ensure that the 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 AIRWAYS LIMITED

We have audited the financial statements on pages 7 to 24.

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 are responsible for preparing the Directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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 of the state of the Company's affairs as at 31 October 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8, Salisbury Square
London, EC4Y 8BB

13 July 2006

PROFIT AND LOSS ACCOUNT
for the year ended 31 October 2005

	Notes	2005 £m	2004 £m
Turnover	1	**563.3**	551.5
Cost of sales		**(430.5)**	(410.2)
Gross profit		**132.8**	141.3
Operating expenses		**(70.5)**	(78.9)
Operating profit		**62.3**	62.4
Loss on the sale of fixed assets		**(0.2)**	(0.2)
Profit before interest		**62.1**	62.2
Interest receivable	5	**0.3**	-
Interest payable and similar charges	6	**(0.2)**	(0.3)
Profit on ordinary activities before taxation	2-4	**62.2**	61.9
Tax on profit on ordinary activities	7	**(16.3)**	(21.0)
Profit on ordinary activities after taxation		**45.9**	40.9
Dividends – equity	8	**(60.0)**	-
Retained (loss)/profit for the year		**(14.1)**	40.9

All activities relate to continuing operations.

The notes on pages 10 to 24 form part of these financial statements.

BALANCE SHEET
at 31 October 2005

	Notes	**2005 £m**	2004 £m
FIXED ASSETS			
Intangible fixed assets	9	**19.2**	3.9
Tangible fixed assets	10	**37.3**	33.7
		56.5	37.6
CURRENT ASSETS			
Stock	11	**7.0**	5.2
Debtors	12	**289.5**	678.8
Cash at bank		**-**	0.9
		296.5	684.9
CREDITORS: amounts falling due within one year	13	**(221.8)**	(583.6)
NET CURRENT ASSETS		**74.7**	101.3
TOTAL ASSETS LESS CURRENT LIABILITIES		**131.2**	138.9
CREDITORS: amounts falling due after more than one year	14	**(4.4)**	(5.8)
PROVISIONS FOR LIABILITIES AND CHARGES	15	**(56.8)**	(49.0)
NET ASSETS		**70.0**	84.1
CAPITAL AND RESERVES			
Called up share capital	16	**0.1**	0.1
Revaluation reserve	17	**1.4**	1.8
Profit and loss account	17	**68.5**	82.2
EQUITY SHAREHOLDERS' FUNDS	17	**70.0**	84.1

The notes on pages 10 to 24 form part of these financial statements.

The financial statements on pages 7 to 24 were approved by the Board on 13 JULY 2006 and signed on their behalf by:-

J R Bunn
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 October 2005

	2005 **£m**	2004 £m
Profit for the financial year	**45.9**	40.9
Transfer from revaluation reserve	**0.4**	-
Total recognised gain relating to the year	**46.3**	40.9

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the year ended 31 October 2005

	2005 **£m**	2004 £m
Reported profit on ordinary activities before taxation	**62.2**	61.9
Depreciation difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	**0.2**	-
Historical cost profit on ordinary activities before taxation	**62.4**	61.9
Historical cost retained (loss)/profit for the year retained after taxation and dividends	**(13.9)**	40.9

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
for the year ended 31 October 2005

	2005 **£m**	2004 £m
Profit for the financial year	**45.9**	40.9
Dividends	**(60.0)**	-
Net (decrease)/increase in equity shareholders' funds	**(14.1)**	40.9
Opening equity shareholders' funds	**84.1**	43.2
Closing equity shareholders' funds	**70.0**	84.1

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005

1 ACCOUNTING POLICIES

Basis of preparation

The following accounting policies have been consistently applied in dealing with items considered material in relation to the accounts.

Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention as modified by the revaluation of certain fixed assets.

Group financial statements

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Turnover

Turnover represents the aggregate amount receivable (excluding value added tax) that arises from charter airline operations carried out from bases within the United Kingdom. Turnover is stated net of commission and discounts. Revenue is recognised on the date of departure of the flight and the related direct costs are charged to the profit and loss account on the same basis.

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.

Revenue invoiced in advance

All invoiced revenue relating to flights departing after 31 October 2005 is carried forward and included in creditors falling due within one year.

Finance leases and hire purchase agreements

Assets acquired under finance leases and similar hire purchase agreements are capitalised and a corresponding liability recorded in creditors representing the present value of the minimum lease payments. Where an option price exists, the corresponding liability includes the option purchase price as though it were a lease payment and the option exercise date is taken as the most beneficial to the Company. Payments are treated as consisting of capital and interest elements with the interest being charged to the profit and loss account in proportion to the outstanding obligations.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

1 *ACCOUNTING POLICIES (continued)*

Operating leases

Rentals payable and receivable under operating leases are charged or credited to the profit and loss account on a straight-line basis over the period of the lease or on another systematic basis, if this is more representative of the time pattern of the benefit from the use of the leased asset.

Rental payments made in excess of the amount charged to the profit and loss account are carried forward as deferred lease rentals.

Tangible fixed assets and depreciation

Tangible fixed assets are depreciated on a straight-line basis at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful economic life.

The years used are as follows:

Freehold properties	- 50 years
Aircraft and aircraft engines	- lease period
Aircraft equipment and spares	- 12 years
Aircraft modifications	- between lease period and 8 years
Office equipment and computers	- 4 to 5 years
Motor vehicles	- 4 years

Since adopting FRS 15: Tangible Fixed Assets, newly acquired assets are carried at cost with other assets held at their previously revalued amounts.

Aircraft maintenance costs

Provision is made in respect of maintenance, overhaul and repair costs of operating leased airframes, engines and rotable spares based on the total anticipated costs over the useful economic life of the assets calculated by reference to costs experienced and published manufacturers' data. The charge to the profit and loss account is calculated by reference to the number of hours flown or by reference to the length of the full overhaul cycle. Costs incurred are charged against the provision. Neither the timing nor the value of the future expenditure can be precisely determined but they can be averaged over time and over a fleet.

The cost of major overhauls of owned airframes, engines and rotable spares is capitalised and depreciated over the period until the next scheduled major overhaul.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

1 ACCOUNTING POLICIES (continued)

Pensions

The Company operates defined benefit and defined contribution schemes. Pension liabilities are funded by monthly or annual contributions. Under defined benefit schemes, pension liabilities are charged to the profit and loss account so as to spread the long-term cost of pensions over the service lives of employees. Variations from regular cost are spread over the average remaining service lives of current employees. Defined contribution scheme pension liabilities are charged to the profit and loss account as they fall due.

FRS 17: Retirement Benefits will require a market rather than actuarial valuation of defined benefit schemes. This will result in a greater volatility of the pension scheme surplus as the market valuation will be taken at each balance sheet date and be reflective of a particular point in time. At 31 October 2005, the Company has adopted the transitional disclosures of FRS 17 and shown market valuations of its defined benefit schemes at that date.

Stock

Stock is valued at the lower of cost or net realisable value.

Cash flow statement

The Company is exempt under FRS 1: Cash Flow Statements from the requirement to prepare a cash flow statement as its ultimate parent, First Choice Holidays PLC, includes the Company in its consolidated financial statements.

Related party transactions

As the Company is a wholly-owned subsidiary of First Choice Holidays PLC, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group headed by First Choice Holidays PLC. The consolidated financial statements of First Choice Holidays PLC, within which this Company is included, can be obtained from the address given in note 20.

Intangible assets

Goodwill

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life. The useful economic life of the assets is determined as 20 years.

Licences

The Company purchased an 11-year licence, from First Choice Holidays & Flights Limited to use the First Choice brand name and trademark. Amortisation on the licence is charged on a straight-line basis over the lease period.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

2 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging :	**2005** **£m**	2004 £m
Operating lease rentals		
- land and buildings	**1.6**	1.6
- aircraft and other equipment	**68.5**	74.8
Depreciation	**5.1**	4.1
Goodwill amortisation	**0.3**	0.3
Licence amortisation	**2.6**	-
Loss on disposal of fixed assets	**(0.2)**	(0.2)

Auditors' remuneration for the current and prior years is borne by the ultimate parent company.

3 STAFF COSTS

	2005 **£m**	2004 £m
Wages and salaries	**56.0**	56.7
Social security costs	**5.9**	5.8
Other pension costs	**7.2**	7.1
	69.1	69.6

	2005	2004
The average weekly number of employees during the year was as follows:	**2,186**	2,184

Funded defined contribution schemes for employees and Directors

Pension costs of £3.4m (2004: £3.2m) relating to defined contribution schemes were charged to the profit and loss account.

Funded defined benefit schemes

The Company sponsors two defined benefit schemes, the Air 2000 Retirement Benefits Scheme and the Unijet Group Plc Final Salary Scheme.

Actuarial valuations of the two schemes were carried out at 1 November 2003 (Air 2000) and 1 November 2003 (Unijet). The valuations revealed Minimum Funding Requirement ratios of 79% and 81%, respectively, calculated in accordance with the provisions of the Pension Act 1995.

Both schemes are closed to new entrants and under the projected unit method, the service cost as a percentage of pensionable payroll will increase as the members of the scheme approach retirement.

Valuations of the schemes are made by qualified actuaries using market based valuations for the assets and attained age method for the liabilities.

Air 2000 Scheme

The principal valuation assumptions used were the ratios of investment return of 7.25% per annum compound (pre-retirement) and 5.5% per annum compound (post-retirement) and a rate of salary increase of 4.75% per annum compound. The market value of the scheme's assets at the date of the last actuarial valuation was £18.5m, representing 59% of the benefits that had accrued to members after allowing for expected future increases in earnings. The total pension charge for the year was £2.2m (2004: £2.3m). The signed Schedule of

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

3 STAFF COSTS *(continued)*

Contributions dated 31 August 2005 stated that the Group's contributions from 1 June 2004 onwards are 34.2% of contribution salaries for Flight Deck staff and 30.1% for Ground and Administrative staff. From 1 June 2004 to 31 March 2005 Flight Deck staff have a contribution rate of 7%, from 1 April 2005 to 31 December 2005 8% and from 1 January 2006 onwards 10%. From 1 June 2004 to 31 March 2005 Ground and Administrative staff have a contribution rate of 5%, from 1 April 2005 to 31 March 2006 6% and from 1 April 2006 onwards 7%.

In addition special employer contributions have been paid on 1 April 2005 and 1 September 2005 of £1.8m and £2.9m respectively. Further special employer contributions are payable as follows: £3.5m no later than 1 June 2006, £3.4m no later than 1 June 2007 and £0.85m each no later than 1 June 2008, 2009 and 2010 respectively.

The next triennial valuation will be due no later than 1 November 2006 and will be reflected in the accounts for the year ending 31 October 2007.

Unijet Scheme

The principal valuation assumptions used were the rates of investment return of 7.25% per annum compound (pre-retirement) and 5.5% per annum compound (post-retirement) and a rate of salary increase of 4.75% per annum compound. The market value of the scheme's assets at the date of the last actuarial valuation was £12.3m, representing 61% of the benefits that had accrued to members after allowing for expected future increases in earnings. The total pension cost for the year was £1.6m (2004: £1.6m). The signed Schedule of Contributions dated 31 August 2005 stated that the Group's contribution rate from 1 November 2004 to 31 August 2005 is 16.4% of pensionable salaries and from 1 September 2005 onwards 32.1%. From 1 November 2004 to 31 March 2005 employees have a contribution rate of 7%, from 1 April 2005 to 31 December 2005 8% and from 1 January 2006 onwards 10%.

In addition special employer contributions have been paid on 1 April 2005 and 1 September 2005 of £0.74m and £2.0m respectively. Further special employer contributions are payable as follows: £2.45m no later than each of 1 June 2006 and 1 June 2007 respectively, and £1.15m each no later than 1 June 2008, 2009 and 2010 respectively.

The next triennial valuation will be due no later than 1 November 2006 and will be reflected in the accounts for the year ending 31 October 2007.

The transitional arrangements of the accounting standard FRS 17 require additional disclosure of defined benefit pension schemes as at 31 October 2005, 2004 and 2003 calculated in accordance with the requirements of FRS 17. For the purpose of these accounts, these figures are illustrative only and do not impact on the actual balance sheet or the profit and loss account. The assets of each scheme have been taken at market value and the liabilities have been calculated by the qualified actuary using the following principal actuarial assumptions:

	Air 2000 scheme per annum			**Unijet scheme per annum**		
	2005	2004	2003	**2005**	2004	2003
	%	%	%	%	%	%
Inflation	3.00	3.00	2.50	3.00	3.00	2.50
Salary increases	5.00	5.00	3.75	5.00	5.00	3.75
Rate of discount	5.20	5.50	5.75	5.20	5.50	5.75
Pension in payment increases	3.00	3.00	3.00	3.00	3.00	2.50
Revaluation rate for deferred pensioners	3.00	3.00	2.50	3.00	3.00	2.50

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

3 STAFF COSTS (continued)

On this basis, the illustrative balance sheet figures are as follows:

	Air 2000 scheme			Unijet scheme			Total		
	2005	2004	2003	**2005**	2004	2003	**2005**	2004	2003
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Assets	30.4	21.2	18.5	19.5	13.8	12.4	49.9	35.0	30.9
Liabilities	(49.3)	(39.6)	(27.5)	(33.8)	(27.2)	(16.9)	(83.1)	(66.8)	(44.4)
Deficit	(18.9)	(18.4)	(9.0)	(14.3)	(13.4)	(4.5)	(33.2)	(31.8)	(13.5)
Deferred tax	5.7	5.5	2.7	4.3	4.0	1.4	10.0	9.5	4.1
Net deficit	(13.2)	(12.9)	(6.3)	(10.0)	(9.4)	(3.1)	(23.2)	(22.3)	(9.4)

Based on the net deficit in the schemes at 31 October 2005, the future full adoption of FRS 17 would result in a decrease in reserves.

The above disclosed position is different to that determined for the long term funding of the schemes, as different assumptions have been used.

The assets of the schemes at 31 October 2005, 31 October 2004 and 31 October 2003 and corresponding expected returns over the following year are as follows:

	Air 2000 scheme fund value			Unijet scheme fund value			Expected returns on both schemes		
	2005	2004	2003	**2005**	2004	2003	**2005**	2004	2003
	£m	£m	£m	**£m**	£m	£m	**%**	%	%
Equities	**19.8**	13.7	12.1	**12.7**	9.0	8.2	**8.00**	8.44	8.75
Bonds	**10.5**	7.4	6.2	**6.7**	4.7	4.1	**5.00**	5.48	5.50
Cash and other short term assets	**0.1**	0.1	0.2	**0.1**	0.1	0.1	**5.00**	5.00	4.50
	30.4	21.2	18.5	**19.5**	13.8	12.4			

The fair value of the schemes' assets are not intended to be realised in the short term and may be subject to significant change before they are realised.

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which due to the timescale covered, may not necessarily be borne out in practice. The present value of the schemes' liabilities are derived from cash flow projections over long periods and are inherently uncertain.

The transitional arrangements of FRS 17 also require disclosure of the defined benefit pension related costs and movements which would have been included in the profit and loss account and the statement of total recognised gains and losses, had full adoption of FRS 17 been made in the year ended 31 October 2005.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

3 STAFF COSTS (continued)

Analysis of the amount that would have been charged to operating profit:

	Air 2000 scheme		Unijet scheme		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£m	£m	**£m**	£m	**£m**	£m
Current service cost	**1.6**	1.2	**1.4**	1.1	**3.0**	2.3

Analysis of the amount that would have been charged to other finance income:

	Air 2000 scheme		Unijet scheme		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£m	£m	**£m**	£m	**£m**	£m
Expected return on pension scheme assets	**1.8**	1.4	**1.1**	1.0	**2.9**	2.4
Interest on pension scheme liabilities	**(2.2)**	(1.6)	**(1.5)**	(1.0)	**(3.7)**	(2.6)
Net Charge	**(0.4)**	(0.2)	**(0.4)**	-	**(0.8)**	(0.2)

Analysis of the amount that would have been recognised in the statement of total recognised gains and losses:

	Air 2000 scheme		Unijet scheme		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£m	£m	**£m**	£m	**£m**	£m
Actual return less expected return on pension scheme assets	**1.6**	(0.3)	**1.0**	0.1	**2.6**	(0.2)
Actuarial experience gains and losses arising on the scheme liabilities	**0.4**	0.1	**0.9**	(1.0)	**1.3**	(0.9)
Changes in assumptions underlying the present value of the scheme liabilities	**(7.1)**	(9.6)	**(4.8)**	(7.6)	**(11.9)**	(17.2)
Actuarial losses recognised in the statement of total recognised gains and losses	**(5.1)**	(9.8)	**(2.9)**	(8.5)	**(8.0)**	(18.3)

Movement in pension deficit during the year:

	Air 2000 scheme		Unijet scheme		Total	
	2005	2004	**2005**	2004	**2005**	2004
	£m	£m	**£m**	£m	**£m**	£m
Deficit in scheme at beginning of year	**(18.4)**	(9.0)	**(13.4)**	(4.5)	**(31.8)**	(13.5)
Movement in year:						
– Current service cost	**(1.6)**	(1.2)	**(1.4)**	(1.1)	**(3.0)**	(2.3)
– Contributions	**6.6**	1.8	**3.8**	0.7	**10.4**	2.5
– Other finance cost	**(0.4)**	(0.2)	**(0.4)**	-	**(0.8)**	(0.2)
– Actuarial experience gain / loss	**(5.1)**	(9.8)	**(2.9)**	(8.5)	**(8.0)**	(18.3)
Deficit in scheme at end of year	**(18.9)**	(18.4)	**(14.3)**	(13.4)	**(33.2)**	(31.8)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

3 STAFF COSTS (continued)

Actuarial gains/(losses) over the year were as follows:

2005	**Air 2000 Scheme 2005 £m**	**%**	**Unijet Scheme 2005 £m**	**%**	**Total 2005 £m**	**%**
Difference between the expected and actual return on pension scheme assets expressed as a percentage of scheme assets	**1.6**	**5**	**1.0**	**5**	**2.6**	**5**
Actuarial experience gains and losses on scheme liabilities expressed as a percentage of the present value of the scheme liabilities	**0.4**	**1**	**0.9**	**3**	**1.3**	**2**
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**(7.1)**	**(14)**	**(4.8)**	**(14)**	**(11.9)**	**(14)**
Total actuarial gain recognised in the statement of total recognised gains and losses, expressed as a percentage of the present value of the scheme liabilities	**(5.1)**	**(11)**	**(2.9)**	**(10)**	**(8)**	**(10)**

Actuarial gains/(losses) last year were as follows:

2004	Air 2000 Scheme 2004 £m	%	Unijet Scheme 2004 £m	%	Total 2004 £m	%
Difference between the expected and actual return on pension scheme assets expressed as a percentage of scheme assets	(0.3)	(2)	0.1	1	(0.2)	(1)
Actuarial experience gains and losses on scheme liabilities expressed as a percentage of the present value of the scheme liabilities	0.1	-	(1.0)	(4)	(0.9)	(1)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	(9.6)	(24)	(7.6)	(28)	(17.2)	(26)
Total actuarial gain recognised in the statement of total recognised gains and losses, expressed as a percentage of the present value of the scheme liabilities	(9.8)	(25)	(8.5)	(31)	(18.3)	(27)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

4 REMUNERATION OF DIRECTORS

	2005	2004
	£'000	£'000
Emoluments	**584**	844
Pensions and other retirement benefits	**37**	25
	621	869

	Number of Directors	
	2005	2004
Money purchase schemes	**4**	6

The aggregate emoluments and amounts receivable under long-term incentive schemes of the highest paid director in 2005 was £298,293 (2004: £231,169). The Company made pensions contribution of £15,525 (2004: £5,038) to a money purchase scheme on their behalf.

The interests of the directors in shares and options of the ultimate parent undertaking are given in the Directors' Report.

5 INTEREST RECEIVABLE

	2005	2004
	£m	£m
Due to tax overpaid in prior years	**0.3**	-

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2005	2004
	£m	£m
On loans	**0.2**	0.3

7 TAXATION

	2005	2004
	£m	£m
Tax on profit on ordinary activities:		
(i) Analysis of charge in year		
Current tax:		
UK corporation tax on profits of the year	**16.8**	11.1
Amounts payable to fellow subsidiaries in respect of tax saved by group relief	**2.3**	8.3
Adjustment in respect of previous periods:		
- Permanent	**(2.8)**	2.3
Total current tax	**16.3**	21.7
Deferred tax:		
Origination and reversal of timing differences:		
- current year UK	**(0.3)**	(0.7)
- adjustment in respect of previous periods	**0.3**	-
Total deferred tax	**-**	(0.7)
Tax on profit on ordinary activities	**16.3**	21.0

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

7 TAXATION (continued)

(ii) Factors affecting tax charge for year

The tax charge for the year is lower (2004: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005	2004
	£m	£m
Profit on ordinary activities before tax	**62.2**	61.9
Profit on ordinary activities at the standard rate of UK corporation tax of 30% (2004: 30%)	**18.7**	18.6
Effects of:		
- Expenses not deductible for tax purpose	**0.1**	0.1
- Capital allowances for year lower than depreciation	**0.3**	0.7
- Adjustment to tax charge in respect of previous periods	**(2.8)**	2.3
Current tax charge for year	**16.3**	21.7

We expect the current effective tax rate to prevail for future periods.

8 DIVIDENDS

	2005	2004
	£m	£m
Interim dividend for the year of £600 per ordinary share (2004: £nil)	**60.0**	-

9 INTANGIBLE FIXED ASSETS

	Goodwill	**Licence**	**Total**
	£m	**£m**	**£m**
Cost			
At 1 November 2004	5.6	-	5.6
Additions	-	18.2	18.2
31 October 2005	**5.6**	**18.2**	**23.8**
Accumulated amortisation			
At 1 November 2004	1.7	-	1.7
Charge for the year	0.3	2.6	2.9
At 31 October 2005	**2.0**	**2.6**	**4.6**
Net book value at 31 October 2005	**3.6**	**15.6**	**19.2**
Net book value at 31 October 2004	3.9	-	3.9

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

9 INTANGIBLE FIXED ASSETS (continued)

Goodwill: On 1 November 1998 all of the assets and liabilities excluding investments of Leisure International Airways Limited, a fellow subsidiary undertaking, were purchased for a consideration of £1. Goodwill arising on acquisition totalled £5.6m. Amortisation for the year on a straight-line basis over 20 years has been charged, totalling £0.3m (2004: £0.3m).

Licence: On 28 September 2005 the Company purchased an 11-year licence from First Choice Holidays & Flights Limited to use the First Choice brand name and trademark. The licence was acquired for a lump sum payment of £18.2m. The effective date of the licence purchase was 1 April 2004. Amortisation of the licence is charged on a straight-line basis over the licence period. In the year £2.6m has been charged (2004: £nil).

10 TANGIBLE ASSETS

	Aircraft* £m	Motor Vehicles £m	Office Equipment and Computers £m	Freehold Land and Buildings £m	Total £m
Cost/valuation					
At 1 November 2004	50.1	0.3	8.2	4.3	62.9
Additions	7.9	-	1.1	-	9.0
Disposals	(3.0)	-	-	-	(3.0)
At 31 October 2005	55.0	0.3	9.3	4.3	68.9
Depreciation					
At 1 November 2004	23.1	0.3	5.4	0.4	29.2
Provided in the year	4.0	-	1.0	0.1	5.1
Disposals	(2.7)	-	-	-	(2.7)
At 31 October 2005	24.4	0.3	6.4	0.5	31.6
Net book value					
At 31st October 2005	**30.6**	**-**	**2.9**	**3.8**	**37.3**
At 31st October 2004	27.0	-	2.8	3.9	33.7

Certain assets within aircraft were revalued at October 1999. The valuation was based on open market value.

* Aircraft: includes aircraft, equipment and spares, engines and modifications.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

10 TANGIBLE ASSETS (continued)

The net book value of these assets at 31 October 2005 was £3.0m. The net book value of these assets on a historical cost basis is as follows:

	Aircraft Equipment and Spares £m
Net book value at valuation	
At 31 October 2005	3.0
Historical cost	
At 1 November 2004	4.5
Additions	-
At 31 October 2005	4.5
Depreciation	
At 1 November 2004	1.9
Provided in the year	0.5
At 31 October 2005	2.4
Net book value at historical cost at 31 October 2005	2.1

The net book value of assets held under finance leases and hire purchase contracts at 31 October 2005 was £3.0m (2004: £3.7m). The depreciation charged in the year for these assets was £0.7m (2004: £0.5m).

11 STOCK

	2005 £m	2004 £m
Bar and catering stock	**2.4**	3.0
Uniforms	**0.2**	0.4
Other	**4.4**	1.8
	7.0	5.2

12 DEBTORS

	2005 £m	2004 £m
Trade debtors	**15.1**	18.7
Amounts owed by group undertakings	**241.2**	635.4
Corporation tax	**-**	2.8
Other debtors	**12.9**	2.1
Deferred lease rentals	**6.8**	6.7
Prepayments and payments in advance to suppliers	**13.5**	13.1
	289.5	678.8

Included in prepayments are security deposits of £9.1m (2004: £6.3m), which are held as security against hire purchase assets and operating leases.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

13 CREDITORS: *amounts falling due within one year*

	2005 £m	2004 £m
Bank loans and overdrafts	**100.2**	1.1
Trade creditors	**11.2**	25.9
Corporation tax	**2.8**	4.5
Amounts due to group undertakings	**19.9**	431.9
Other creditors	**8.6**	35.7
Other taxes and social security costs	**1.9**	1.8
Accruals and deferred income	**53.3**	56.8
Group relief	**23.9**	25.9
	221.8	583.6

First Choice Airways Ltd's bank overdraft is part of a cash pooling system with other companies in the First Choice Holidays PLC Group.

14 CREDITORS: amounts falling due after more than one year

	2005 £m	2004 £m
Loan capital	**4.4**	5.8

The maturity of obligations under bank loans and overdrafts is as follows:

	2005 £m	2004 £m
Payable within		
- one year	**100.2**	1.1
- two to five years	**4.4**	5.8
	104.6	6.9

15 PROVISIONS FOR LIABILITIES AND CHARGES

	2005 £m	2004 £m
Aircraft maintenance provision (i)	**52.9**	45.1
Deferred taxation (ii)	**3.9**	3.9
	56.8	49.0

(i) **Aircraft maintenance provision**

	2005 £m	2004 £m
At 1 November	**45.1**	41.1
Provided in the year	**54.3**	47.8
Costs incurred	**(44.1)**	(43.5)
Exchange movements	**(2.4)**	(0.3)
At 31 October	**52.9**	45.1

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

15 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

(ii) Deferred taxation

	2005	2004
	£m	£m
Accelerated capital allowances	**3.9**	3.9

The net deferred tax provision is as follows:

	£m
At 1 November 2004 and at 31 October 2005	**3.9**

There is no unprovided deferred taxation at either 31 October 2004 or 31 October 2005.

16 CALLED UP SHARE CAPITAL

	2005	2004
	£000	£000
Authorised		
100,000 ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	**100**	100

17 EQUITY SHAREHOLDERS' FUNDS

	Share Capital £m	**Revaluation Reserve £m**	**Profit and Loss Account £m**	**Total £m**
At 1 November 2004	0.1	1.8	82.2	84.1
Retained loss for the year	-	-	(14.1)	(14.1)
Realisation of revaluation reserve	-	(0.4)	0.4	-
At 31 October 2005	**0.1**	**1.4**	**68.5**	**70.0**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 2005 (continued)

18 FINANCIAL COMMITMENTS

The annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings 2005 £m	**Aircraft and Other Equipment 2005 £m**	Land and Buildings 2004 £m	Aircraft and Other Equipment 2004 £m
Expiring within:				
One year	**0.1**	**2.1**	0.1	3.3
Two to five years	**1.1**	**30.7**	1.0	22.8
Thereafter	**-**	**36.8**	-	36.5
	1.2	**69.6**	1.1	62.6

The Company has contracted to purchase six Boeing 787 aircraft, the first delivery of which is in 2009. The Company intends to refinance these aircraft in advance of their delivery dates and therefore does not expect to use its own cash resources for their purchase. At list price, the order value is US$818.5m.

19 CONTINGENT LIABILITIES

The Company is one of several guarantors to the following First Choice Holidays PLC facility agreements: a syndicated surety bonding facility of £75m and syndicated bank credit facilities of £310m and £240m. All agreements are in the name of First Choice Holidays PLC.

20 ULTIMATE PARENT COMPANY

First Choice Holidays PLC, a company registered in England and Wales, is the ultimate parent company. First Choice Holidays PLC is the parent undertaking of the largest and smallest group of which First Choice Airways Limited is a member and for which Group accounts are drawn up. Copies of these Group accounts are available from the Company Secretary, First Choice Holidays PLC, First Choice House, London Road, Crawley, West Sussex, RH10 9GX.