FIRST CHOICE AIRWAYS LIMITED

Directors' report and financial statements
For the 11-month period ended
30 September 2007

Registered number 1966273

DIRECTORS' REPORT

The Directors present their report and financial statements of First Choice Airways Limited for the 11-month period ended 30 September 2007

Enhanced Business Review

On 3 September 2007, First Choice Holidays Limited (formerly First Choice Holidays PLC) merged with the Tourism Division of TUI AG to form TUI Travel PLC During the period, the Company changed its accounting reference dated 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

On 1 May 2008 First Choice Airways Limited and Thomsonfly Limited received a new Air Operating Certificate from the Civil Aviation Authority The companies continue to fly under the First Choice Airways and Thomsonfly brands

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, the Directors manage the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in the TUI Travel Group The Company's risks and uncertainties are reviewed in the context of the whole Group and the Directors 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 the TUI Travel Group 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 an airline operator, the Company specifically faces currency and fuel market risks These arise principally from the Company making purchases for fuel, aircraft operating leases and aircraft maintenance in US dollars and through exposure to jet fuel prices The Group's exposure to currency is managed using forward contracts, swaps and options Exposure to changes to jet fuel prices in future seasons is managed using energy swaps and options The Board of Directors of TUI Travel PLC has overall responsibility for the establishment and oversight of the Group's treasury and risk management framework

DIRECTORS' REPORT (continued)

Enhanced Business Review (continued)

As the Directors manage the Company in co-ordination with the management of the TUI Travel Mainstream Sector UK & Ireland businesses, 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

The development, performance and position of the Mainstream Sector of the TUI Travel Group, 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 profit on ordinary activities before taxation for the 11-month period ended 30 September 2007 was £62 1m (2006 £49 0m – restated see note 1) Dividends paid in the period were £30m (2006 £nil) The Directors do not recommend payment of a final dividend

Principal activity

The Company's principal activity is the operation of a charter airline

Directors

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

D Blastland	
C M Browne	
J R Bunn	
F M Ellacott	
N J Fisk	(appointed 7 April 2008)
C D Gissing	
P J Long	
J Murphy	(appointed 7 April 2008)
D M Taylor	(appointed 7 April 2008)

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

Employee matters

The TUI Travel Group employs approximately 48,000 people, 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

DIRECTORS' REPORT (continued)

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 their Company

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

DIRECTORS' REPORT (continued)

Policy and practice on payment of suppliers

It is the Company's policy wherever possible to agree terms of payment with suppliers in advance to ensure that they are made aware of the terms of payment and both parties abide by those terms

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

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 the General Meeting and the appointment of auditors annually Accordingly, KPMG Audit Plc will continue in office as auditors

By Order of the Board

Dermot Blastland
Director

Date 24 June 2008

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 AIRWAYS LIMITED

We have audited the financial statements of First Choice Airways 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, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Equity Shareholders' Funds 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST CHOICE AIRWAYS LIMITED (continued)

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 profit 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
8 Salisbury Square,
London, EC4Y 8BB

24 June 2008

PROFIT AND LOSS ACCOUNT
for the 11-month period ended 30 September 2007

	Notes	11-month period ended 30 September 2007 £m	Restated Year ended 31 October 2006 £m
Turnover	1	**590 9**	592 2
Cost of sales		**(457 7)**	(448 4)
Gross profit		**133 2**	143 8
Operating expenses excluding write-off of amounts owed by group undertakings		**(66 6)**	(80 0)
Write-off of amounts owed by group undertakings	3	-	(10 0)
Operating expenses		**(66 6)**	(90 0)
Operating profit		**66 6**	53 8
Profit on the sale of fixed assets	2	**2 1**	-
Profit before interest		**68.7**	53 8
Interest payable and similar charges	1, 6	**(6.5)**	(4 2)
Other finance costs	7	**(0.1)**	(0 6)
Profit on ordinary activities before taxation	2-4	**62 1**	49 0
Tax on profit on ordinary activities	8	**(23.7)**	(16 4)
Profit on ordinary activities after taxation		**38 4**	32 6

The results stated above are all derived from continuing operations

The notes on pages 10 to 35 form part of these financial statements

BALANCE SHEET
At 30 September 2007

	Notes	30 September 2007	Restated 31 October 2006
		£m	£m
FIXED ASSETS			
Intangible fixed assets	10	**15 5**	17 3
Tangible fixed assets	11	**34 4**	39 5
		49 9	56 8
CURRENT ASSETS			
Stock	12	**4.4**	5 0
Debtors	13	**222 1**	233 5
Cash at bank		**49 1**	11 1
		275.6	249 6
CREDITORS: amounts falling due within one year	14	**(160 3)**	(150 1)
NET CURRENT ASSETS		**115.3**	99 5
TOTAL ASSETS LESS CURRENT LIABILITIES		**165.2**	156 3
CREDITORS. amounts falling due after more than one year	15	**(8 5)**	(9 2)
PROVISIONS FOR LIABILITIES AND CHARGES	16	**(55 2)**	(52 1)
NET ASSETS EXCLUDING PENSION LIABILITIES		**101.5**	95 0
Pension liabilities	4bii	**(4 4)**	(17 9)
NET ASSETS INCLUDING PENSION LIABILITIES		**97.1**	77 1
CAPITAL AND RESERVES			
Called up share capital	17	**0.1**	0 1
Revaluation reserve	18	**0.7**	1 1
Profit and loss account	18	**96.3**	75 9
EQUITY SHAREHOLDERS' FUNDS	18	**97 1**	77 1

The notes on pages 10 to 35 form part of these financial statements

The financial statements were approved by the Board on 24 June 2008 and signed on their behalf by -

Dermot Blastland
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the 11-month perıod ended 30 September 2007

	11-month perıod ended 30 September 2007 £m	Restated Year ended 31 October 2006 £m
Profit for the perıod/year	**38.4**	32 6
Actuarıal gaıns recognısed ın the pensıon schemes	**13.2**	4 0
Deferred tax arısıng on gaıns ın the pensıon schemes	**(3 7)**	(0 9)
Total recognısed gaıns and losses relatıng to the financıal perıod/year	**47.9**	35 7
Prıor year adjustment - pensıons (see note 1)	**(0 5)**	
Total gaıns and losses recognısed sınce last annual report	**47 4**	

NOTE OF HISTORICAL COST PROFITS AND LOSSES
for the 11-month perıod ended 30 September 2007

	11-month perıod ended 30 September 2007 £m	Restated Year ended 31October 2006 £m
Reported profit on ordınary actıvıtıes before taxatıon	**62.1**	49 0
Deprecıatıon dıfference between a hıstorıcal cost deprecıatıon charge and the actual deprecıatıon charge calculated on the revalued amount	**0.2**	0 2
Hıstorıcal cost profit on ordınary actıvıtıes before taxatıon	**62 3**	49 2
Hıstorıcal cost profit for the perıod/year after taxatıon	**38 6**	32 8

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS
for the 11-month perıod ended 30 September 2007

	11-month perıod ended 30 September 2007 £m	Restated Year ended 31 October 2006 £m
Total recognısed gaıns and losses relatıng to the financıal perıod/year	**47 9**	35 7
Dıvıdends paıd - ınterım £300 per share (2006 £nıl per share)	**(30 0)**	-
Share based payment	**2.1**	1 3
Net addıtıon to equıty shareholders' funds	**20 0**	37 0
Openıng equıty shareholders' funds as previously reported	**77 6**	41 6
Prıor year adjustment - pensıons (see note 1)	**(0.5)**	(1 5)
Openıng equıty shareholders' funds as restated	**77.1**	40 1
Closıng equıty shareholders' funds	**97 1**	77 1

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007

1 ACCOUNTING POLICIES

The following accounting policies have been consistently applied 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 following new Financial Reporting Standard has been adopted for the first time

FRS 20 Share based payment

For the 11-month period ended 30 September 2007, the Company has applied the requirements of FRS 20 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 Applying the requirements of FRS 20 has therefore required restatement of the profit and loss account for the year ended 31 October 2006, but not a restatement of the balance sheet at that date The value of share-based payments charges recognised in 2007 were £2 1m (2006 £1 3m)

Change in accounting policies

FRS 17: Retirement benefits (revised)
The company has revalued its pension assets and liabilities as required by FRS 17 (revised) The impact of the implementation of this revised standard on profit before taxation has been £nil and the net assets at 1 November 2006 have decreased by £0 5m (1 November 2005 decrease of £1 5m)

Basis of preparation

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

Related party transactions

The Company has taken advantage of the exemption contained in the Financial Reporting Standard No 8 "Related Party Disclosures" 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 related party transactions or balances with entities that form part of the Group headed by First Choice Holidays Limited or TUI Travel PLC

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

1 ACCOUNTING POLICIES (continued)

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 trade 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 All invoiced turnover relating to flights departing after 30 September 2007 is carried forward and included in creditors falling due within one year

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

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved for payment

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 interest being charged to the profit and loss account in proportion to the outstanding obligations

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

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

1 ACCOUNTING POLICIES (continued)

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, aircraft engines and equipment	- lease period or useful economic life if shorter
Aircraft spares	- 12 years
Aircraft modifications	- between lease period and 8 years
Catering equipment	- 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

Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

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, number of rotations 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

Previously the Company included the unwinding of the discount rate charge to the profit and loss account within cost of sales During the year this has been reclassified from cost of sales to interest, and comparatives restated

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 11-month period ended 30 September 2007 (continued)

1 ACCOUNTING POLICIES (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

Post-retirement benefits

The Company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Company in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

The Company also operates two pension schemes providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the Company

FRS 17 Retirement benefits requires pension scheme assets to be measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full on the face of the balance sheet, net of deferred taxation The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

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 (Revised 1996) 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

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 of the licence is charged on a straight-line basis over the licence period

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

2 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting)	**11-month period ended 30 September 2007 £m**	Year ended 31 October 2006 £m
Operating lease rentals		
- land and buildings	**1.3**	3 1
- aircraft and other equipment	**63.7**	66 6
Depreciation	**6.1**	6 4
Goodwill amortisation	**0.3**	0 2
Licence amortisation	**1.5**	1 7
Profit on disposal of fixed assets		
- sale of A320 rotables and Boeing spares	**(2.1)**	-

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 immediate parent, First Choice Holidays Limited

3 WRITE-OFF OF AMOUNTS OWED BY GROUP UNDERTAKINGS

	11-month period ended 30 September 2007 £m	Year ended 31 October 2006 £m
Write-off of amounts owed by group undertakings	**-**	10 0

During the year ended 31 October 2006, the Directors, in consultation with the management of First Choice Holidays Limited, reviewed the recovery of all amounts owed by group undertakings to the Company Following this review, they concluded that debt owing from two group undertakings should be written off

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS

	11-month period ended 30 September 2007 £m	Year ended 31 October 2006 £m
Wages and salaries	55.6	55 8
Social security costs	5.8	6 0
Other pension costs	6.5	6 9
	67.9	68 7

	11-month period ended 30 September 2007	Year ended 31 October 2006
The average weekly number of employees during the period/year was as follows	2,090	2,211

4a Funded defined contribution schemes for employees and Directors

Pension costs of £3 5m (2006 £3 8m) relating to defined contribution schemes were charged to the profit and loss account The pension cost charge for the period represents contributions payable by the Company to the scheme

There were no outstanding or prepaid contributions at either the beginning or end of the financial period

4b Funded defined benefit schemes

The Company sponsors two defined benefit schemes, the Air 2000 Limited Retirement Benefits Scheme and the Unijet Group Plc Final Salary Scheme The contributions required are determined by a qualified actuary on the basis of triennial valuations using the projected unit method

Both defined benefit 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 projected unit method for the liabilities The Company recognises all actual gains or losses in the consolidated statement of recognised income and expense

Air 2000 scheme
The last full actuarial valuation of the scheme was carried out by a qualified independent actuary as at 1 November 2006 and this has been updated on an approximate basis to 30 September 2007 for these financial statements

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

In the last full actuarial valuation, the principal valuation assumptions used were rates of investment return of 6 75% per annum compound (pre-retirement) and 5 0% per annum compound (post-retirement) and a rate of salary increase of 4 5% per annum compound The market value of the scheme's assets as 1 November 2006 was £39 1m, representing 80% of the benefits that had accrued to members after allowing for expected future increases in earnings

The signed Schedule of Contributions dated 30 March 2006 stated that the Company's contributions from 1 April 2006 onwards would be 34 2% for Flight Deck staff and 30 1% for Ground and Administrative staff for members not participating in the salary sacrifice of member contributions If members participate in salary sacrifice then the Company's contributions would be 44 2% for Flight Deck staff and 37 1% for Ground and Administrative staff The signed Schedule of Contributions dated 30 March 2008 stated that the Company's contributions from 1 March 2008 onwards would be 26 8% for Flight Deck staff and 19 2% for Ground and Administrative staff for members not participating in the salary sacrifice of member contributions If members participate in salary sacrifice then the Company's contributions would be 36 8% for Flight Deck staff and 26 2% for Ground and Administrative staff

From 1 April 2006, Flight Deck staff have had a contribution rate of 10% and Ground and Administrative staff have had a contribution rate of 7 0% If members participate in the salary sacrifice of member contributions their contribution rate have been 0% These contribution rates are to continue from 1 March 2008, as confirmed by the signed Schedule of Contributions dated 30 March 2008

In addition, special employer contributions have been paid on 31 May 2007 of £3 4m Further special employer contributions are payable of £1 425m no later than 1 June in each of the years 2008, 2009, 2010, 2011, 2012 and 2013

Unijet scheme
The last full actuarial valuation of the scheme was carried out by a qualified independent actuary as at 1 November 2006 and this has been updated on an approximate basis to 30 September 2007 for these financial statements

In the last full actuarial valuation, the principal valuation assumptions used were the rates of investment return of 6 75% per annum compound (pre-retirement) 5 0% per annum compound (post-retirement for non-pensioners) 4 5% per annum compound (post-retirement for current pensioners) and a rate of salary increase of 4 5% per annum compound The market value of the scheme's assets at the date of the last actuarial valuation was £26 3m, representing 75% of the benefits that had accrued to members after allowing for expected future increases in earnings

The signed Schedule of Contributions dated 30 March 2006 stated that the Company's contributions from 1 April 2006 onwards would be 32 1% for employees not participating in the salary sacrifice of member contributions and if employees participate the Company's contributions will be 42 1% The signed Schedule of Contributions dated 30 March 2008 stated that the Company's contributions from 1 March 2008 onwards would be 24 7% for employees not participating in the salary sacrifice of member contributions and if employees participate the Company's contributions will be 34 7%

From 1 April 2006, employees have had a contribution rate of 10% and if employees participate in the salary sacrifice of members contributions their contribution rate has been 0% These contributions rates are to continue from 1 March 2008, as confirmed by the signed Schedule of Contributions dated 30 March 2008

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

In addition, special employer contributions have been paid on 1 June 2007 off £2 45m Further special employer contributions are payable of £1 3m no later than 1 June in each of the years 2008, 2009, 2010, 2011, 2012 and 2013

In addition special employer contributions have been paid on 1 June 2007 of £2 45m Further special employer contributions are payable as follows £1 3m due annually for 2008 to 2013 to be paid by 1 June each year

The next valuation will be performed and reflected in the accounts for the year ending 30 September 2008

The major assumptions used in this valuation were

	Air 2000 scheme per annum			Unijet scheme per annum		
	2007	2006	2005	**2007**	2006	2005
	%	%	%	%	%	%
Inflation	**3 20**	2 90	3 00	**3.20**	2 90	3 00
Salary increases	**4 70**	4 90	5 00	**4.70**	4 90	5 00
Rate of discount	**5 80**	5 10	5 20	**5.80**	5 10	5 20
Pension in payment increases accrued before 6 April 1997	**3 00**	3 00	3 00	**3.20**	2 90	3 00
Pension in payment increases accrued after 5 April 1997	**3 20**	3 00	3 00	**3.20**	2 90	3 00
Pension in payment increases accrued after 1 April 2002	**3 20**	2 90	3 00	**3 20**	2 90	3 00
Revaluation rate for deferred pensioners	**3 20**	2 90	3 00	**3.20**	2 90	3 00

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The mortality assumptions underlying the value of the accrued liabilities for the Air 2000 and Unijet schemes are based on the following life expectancies from age 65

	Air 2000 and Unijet scheme	
	Years 2007	Years 2006
Males		
Current pensioner	**21 9**	21 8
Future pensioner (aged 50)	**22.8**	22 7
Females		
Current pensioner	**24.8**	24 7
Future pensioner (aged 50)	**25.6**	25 6

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

ii Scheme Assets

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, were

* 2006 & 2005 figures are restated due to the adoption of FRS 17 (revised) – see note 1

	Air 2000 scheme			**Unijet scheme**			**Total**		
	2007	2006*	2005*	**2007**	2006*	2005*	**2007**	2006*	2005*
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Assets	**44 5**	39 0	30 4	**30.5**	26 2	19 5	**75.0**	65 2	49 9
Liabilities	**(46.7)**	(53 0)	(50 2)	**(34 4)**	(37 5)	(34 4)	**(81.1)**	(90 5)	(84 6)
Deficit	**(2.2)**	(14 0)	(19 8)	**(3.9)**	(11 3)	(14 9)	**(6.1)**	(25 3)	(34 7)
Deferred tax	**0 6**	4 1	5 6	**1 1**	3 3	4 3	1.7	7 4	9 9
Net deficit	**(1 6)**	(9 9)	(14 2)	**(2.8)**	(8 0)	(10 6)	**(4 4)**	(17 9)	(24 8)

Deferred tax asset on pension deficit	**2007**	2006
	£m	£m
As at 1 November restated	**7 4**	9 9
Charge to the profit and loss for the period/year	**(2 0)**	(1 6)
(Charge) / credit to the statement of total recognised gains and losses for the period/year	**(3 7)**	(0 9)
At 30 September 2007	**1.7**	7 4

The Company also has a deferred taxation liability (see note 16)

iii The assets of the schemes at 30 September 2007, 31 October 2006 and 31 October 2005 and corresponding expected returns over the following year are as follows

* 2006 & 2005 figures are restated due to the adoption of FRS 17 (revised) – see note 1

	Air 2000 scheme fund value			**Unijet scheme fund value**			**Expected rates of returns on both schemes**		
	2007	2006*	2005*	**2007**	2006*	2005*	**2007**	2006*	2005*
	£m	£m	£m	**£m**	£m	£m	**%**	%	%
Equities	**29.2**	25 5	19 8	**19 4**	17 0	12 7	**7.75**	7 75	8 00
Bonds	**15 2**	13 4	10 5	**11 0**	9 1	6 7	**5.80**	5 10	5 00
Cash and other short term assets	**0.1**	0 1	0 1	**0 1**	0 1	0 1	**5 75**	5 00	5 00
	44 5	39 0	30 4	**30.5**	26 2	19 5			

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

iv Movement in pension deficit during the period/year

* 2006 figures are restated due to the adoption of FRS 17 (revised) – see note 1

	Air 2000 scheme		Unijet scheme		Total	
	2007 £m	2006* £m	**2007 £m**	2006* £m	**2007 £m**	2006* £m
Deficit in scheme at beginning of period / year	**(14.0)**	(19 8)	**(11.3)**	(14 9)	**(25 3)**	(34 7)
Movement in period / year						
– Current service cost	**(1.4)**	(1 7)	**(1.6)**	(1 8)	**(3.0)**	(3 5)
– Company contributions	**4 9**	5 1	**4.1**	4 0	**9 0**	9 1
– Member contributions	**-**	0 2	**-**	0 2	**-**	0 4
– Other net finance costs	**-**	(0 3)	**(0.1)**	(0 3)	**(0.1)**	(0 6)
– Actuarial experience gains	**8 3**	2 5	**5 0**	1 5	**13 3**	4 0
Deficit in scheme at end of period/year	**(2 2)**	(14 0)	**(3 9)**	(11 3)	**(6 1)**	(25 3)

v Changes in the Present Value of the Obligation and in the fair Value of Planned Assets

Changes in the Present Value of the Obligation

* 2006 figures are restated due to the adoption of FRS 17 (revised) – see note 1

	Air 2000 scheme		Unijet scheme		Total	
	2007 £m	2006* £m	**2007 £m**	2006* £m	**2007 £m**	2006* £m
Present value of obligation at the start of the period / year	**53.0**	50 2	**37.5**	34 4	**90.5**	84 6
Interest cost	**2.5**	2 6	**1 8**	1 8	**4.3**	4 4
Current service cost	**1 4**	1 7	**1 6**	1 8	**3 0**	3 5
Benefits paid	**(1 4)**	(1 3)	**(1 7)**	(0 5)	**(3 1)**	(1 8)
Actuarial (gain) loss	**(8 8)**	(0 2)	**(4 8)**	-	**(13 6)**	(0 2)
Present value of the obligation at the end of the period / year	**46 7**	53 0	**34.4**	37 5	**81.1**	90 5

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

Changes in the Fair Value of Planned Assets

* 2006 figures are restated due to the adoption of FRS 17 (revised) – see note 1.

	Air 2000 scheme		Unijet scheme		Total	
	2007	2006*	**2007**	2006*	**2007**	2006*
	£m	£m	**£m**	£m	**£m**	£m
Present value of plan assets at the start of the period / year	**39 0**	30 4	**26 2**	19 5	**65 2**	49 9
Expected return on planned assets	**2 5**	2 3	**1 7**	1 5	**4 2**	3 8
Contributions - company	**4 9**	5 1	**4 1**	4 0	**9 0**	9 1
Contributions – members	**-**	0 2	**-**	0 2	**-**	0 4
Benefits paid	**(1.4)**	(1 3)	**(1 7)**	(0 5)	**(3 1)**	(1 8)
Actuarial (gain) loss	**(0.5)**	2 3	**0 2**	1 5	**(0 3)**	3 8
Present value of plan assets at the end of the period / year	**44.5**	39 0	**30.5**	26 2	**75.0**	65 2

vi Analysis of the amount charged in arriving at operating profit

	Air 2000 scheme		Unijet scheme		Total	
	2007	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£m**	£m
Current service cost	**1 4**	1 7	**1 6**	1 8	**3.0**	3 5
Member contributions	**-**	(0 2)	**-**	(0 2)	**-**	(0 4)
	1.4	1 5	**1.6**	1 6	**3.0**	3 1

vii Analysis of amount included in other finance costs

	Air 2000 scheme		Unijet scheme		Total	
	2007	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£m**	£m
Expected return on pension scheme assets	**2.5**	2 3	**1 7**	1 5	**4.2**	3 8
Interest on pension scheme liabilities	**(2 5)**	(2 6)	**(1 8)**	(1 8)	**(4 3)**	(4 4)
Net charge	**-**	(0 3)	**(0.1)**	(0 3)	**(0.1)**	(0 6)

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

viii Analysis of amount recognised in the statement of total recognised gains and losses

* 2006 figures are restated due to the adoption of FRS 17 (revised) – see note 1

	Air 2000 scheme		Unijet scheme		Total	
	2007	2006*	**2007**	2006*	**2007**	2006*
	£m	£m	**£m**	£m	**£m**	£m
Actual return less expected return on pension scheme assets	**(0.5)**	2 3	**0 2**	1 5	**(0 3)**	3 8
Actuarial experience gains and (losses) arising on the scheme liabilities	**-**	0 8	**-**	-	**-**	0 8
Changes in assumptions underlying the present value of the scheme liabilities	**8 8**	(0 6)	**4.8**	-	**13 6**	(0 6)
Actuarial gains / (losses) recognised in the statement of total recognised gains and losses	**8 3**	2 5	**5 0**	1 5	**13.3**	4 0

viii History of plans

The history of the plans for the current and prior periods is as follows

Balance sheet

	Air 2000 Scheme			Unijet Scheme			Total		
	2007	2006*	2005*	**2007**	2006*	2005*	**2007**	2006*	2005*
	£m	£m	£m	**£m**	£m	£m	**£m**	£m	£m
Present value of scheme liabilities	**(46.7)**	(53 0)	(49 3)	**(34.4)**	(37 5)	(33 8)	**(81.1)**	(90 5)	(83 1)
Fair value of schemeassets	**44 5**	39 0	30 4	**30.5**	26 2	19 5	**75 0**	65 2	49 9
Deficit	**(2 2)**	(14 0)	(18 9)	**(3.9)**	(11 3)	(14 3)	**(6.1)**	(25 3)	(33 2)

Experience adjustments

Air 2000 Scheme

	2007	2006*	2005*
	£m	£m	£m
Difference between the expected and actual return on pension scheme assets expressed as a percentage of scheme assets	**(0 5)**	2 3	1 6
Actuarial experience gains and losses on scheme liabilities expressed as a percentage of the present value of the scheme liabilities	**-**	0 8	0 4
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**8 8**	(0 6)	(7 1)
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	**8 3**	2 5	(5 1)

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

Unijet Scheme

	2007	2006*	2005*
	£m	£m	£m
Difference between the expected and actual return on pension scheme assets expressed as a percentage of scheme assets	**0.2**	1 5	1 0
Actuarial experience gains and losses on scheme liabilities expressed as a percentage of the present value of the scheme liabilities	**-**	-	0 9
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	**4 8**	-	(4 8)
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 0**	1 5	(2 9)

*2006 figures are restated due to the adoption of FRS17 (revised) – see note 1 2005 financial information has not been restated

4c 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 up to 3 September 2007, TUI Travel PLC from 3 September 2007 There are four principal share award/option schemes applying to employees of the Company which are designed to link remuneration to the future performance of the Group a senior executive performance related share option scheme known as the Senior Executive Plan ("SEP") and three other long-term incentive schemes known as the Restricted Share Plan ("RSP"), the Deferred Annual Bonus Scheme ("DABS") and the Performance Share Plan ("PSP")

On 3 September 2007, First Choice Holidays Limited was acquired by TUI Travel PLC The terms of the schemes resulted in many of the Company's employees' awards/options vesting and becoming immediately exercisable on this change of control Certain share awards/options in the First Choice Deferred Annual Bonus Scheme and the Performance Share Plan were rolled forward to become awards/options in respect of shares in TUI Travel PLC

The principal features of the First Choice schemes are set out below

i) Deferred Annual Bonus Scheme (DABS)

Under the DABS, the employees 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 Committee No matching shares will vest unless the annual average of the ratio of the parent company group's (the Group's) 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

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

- 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

ii) 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 Groups' Remuneration 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

iii) 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

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

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

iv) 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

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	273,973	109 50	3 September 2007
	238,447	135 25	3 September 2007
Restricted Share Plan	3,000	N/A	3 September 2007
Deferred Annual Bonus Scheme	24,210	N/A	14 December 2008
	17,692	N/A	13 February 2010
Performance Share Plan	273,898	N/A	14 December 2008
	5,868	N/A	19 June 2009
	517,829	N/A	13 February 2010
	1,354,917		

The movement of share options is as follows

	Number of awards/options 2007	Number of awards/options 2006
Outstanding at beginning of the period/year	**3,134,364**	2,459,492
Forfeited during the period/year	**(58,708)**	(190,870)
Exercised during the period/year	**(2,542,562)**	(99,362)
Granted during the period/year	**821,823**	965,104
Outstanding at the end of the period/year	**1,354,917**	3,134,364

At the end of the period awards over 515,420 shares had vested and were exercisable (2006 nil)

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

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

4 STAFF COSTS (continued)

	2007	2006	2005	2004
Information relating to fair values of share option and awards granted				
Fair value at measurement date	**£2.31**	£1 35 – £2 02	£0 92 – £1 32	£1 05 – £1 19
Share price	**£2 60**	£2 17 – £2 29	£1 52 – £1 53	£1 21 – £1 37
Exercise price	-	-	-	-
Expected volatility	**25 7%**	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 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

Employee expenses for the year relating to share based schemes are

	30 September 2007 £m	31 October 2006 £m
Share options granted in 2003	**0.2**	0 1
Share options granted in 2004	–	0 3
Share options granted in 2005	**0.4**	0 4
Share options granted in 2006	**0.8**	0 5
Share options granted in 2007	**0.7**	–
	2.1	1.3

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

	30 September 2007 £m	31 October 2006 £m
To be incurred within one year	**0.6**	1 4
To be incurred after more than one year	**0.6**	0 2
	1.2	1 6

In addition to the above share awards/options granted by First Choice Holidays Limited, awards/options were awarded to the Company's employees on 13 September 2007, under the new TUI Travel Performance Share Plan Details of these new schemes will be disclosed in the first consolidated financial statements of TUI Travel PLC for the year ended 30 September 2008 and are also available in the TUI Travel PLC listing prospectus, dated 29 June 2007 and available at www tuitravel com

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

5 REMUNERATION OF DIRECTORS

	11-month period ended 30 September 2007 £'000	Year ended 31 October 2006 £'000
Emoluments	**683**	681
Pensions and other retirement benefits	**57**	69
	740	750

	Number of Directors	
	11-month period ended 30 September 2007	Year ended 31 October 2006
Money purchase schemes	**4**	4

The aggregate emoluments and amounts receivable under long-term incentive schemes of the highest paid Director in the 11-month period ended 30 September 2007 was £282,748 (Year ended 31 October 2006 £363,699) The Company made pensions contribution of £18,805 (2006 £36,890) to a money purchase scheme on their behalf The remuneration of Directors excludes remuneration in respect of directors who are also directors of First Choice Holidays Limited, the intermediate parent company, as these directors do not receive remuneration in respect of their services to First Choice Airways Limited

6 INTEREST PAYABLE AND SIMILAR CHARGES

	11-month period ended 30 September 2007 £m	Restated Year ended 31 October 2006 £m
Unwinding of maintenance provision discounting (see note 1)	**5.8**	3 6
On bank loans and overdrafts	**0 2**	0 3
Finance lease charges on leases expiring within two to five years	**0 3**	0 3
Other interest payable	**0 2**	-
	6.5	4 2

7 OTHER FINANCE COSTS

	11-month period ended 30 September 2007 £m	Year ended 31 October 2006 £m
Expected return on pension scheme assets	**(4.2)**	(3 8)
Interest on pension scheme liabilities	**4.3**	4 4
	0.1	0 6

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

8 TAXATION

Tax on profit on ordinary activities

(i) Analysis of charge in period/year

	11-month period ended 30 September 2007 £m	Year ended 31 October 2006 £m
Current tax:		
UK corporation tax on profits of the period/year	-	15 8
Amounts payable to fellow subsidiaries in respect of tax saved by group relief	17.9	1 2
Adjustment in respect of previous periods		
- permanent	4.6	(0 6)
- origination of timing differences	2.3	-
Total current tax	24.8	16 4
Deferred tax.		
Origination and reversal of timing differences		
- current period / year	1.2	2 0
- effect of reduction in UK corporate tax rate from 30% to 28%	0.5	-
- adjustment in respect of previous periods	(2 8)	(2 0)
Total deferred tax	(1.1)	-
Tax on profit on ordinary activities	23.7	16 4

(ii) Factors affecting tax charge for the period/year

The current tax charge for the period is higher (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 £m	Restated Year ended 31 October 2006 £m
Profit on ordinary activities before tax	62.1	49 0
Profit on ordinary activities at the standard rate of UK corporation tax of 30% (2006 30%)	18 6	14 7
Effects of		
- Expenses not deductible for tax purposes	0 8	3 6
- Capital allowances for period / year in excess of depreciation	0 9	(0 4)
- Other short term timing differences	(2.4)	(0 9)
- Adjustment to tax charge in respect of previous periods	6 9	(0 6)
Current tax charge for period/year	24 8	16 4

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

8 Taxation (continued)

(iii) Factors affecting the future tax charge

The total tax charge in future years is anticipated to follow the standard rate of UK corporate taxation The statutory rate of UK corporation tax reduced to 28% with effect from 1 April 2008 Deferred tax is disclosed in notes 4b and 15

9 DIVIDENDS

The aggregate amount of dividends comprises

	2007 £m	2006 £m
Final dividends paid in respect of prior year but not recognised as liabilities in that year	30.0	-
Interim dividends paid in respect of the current period	-	-
Aggregate amount of dividends paid in the financial period	30.0	-

10 INTANGIBLE FIXED ASSETS

	Goodwill £m	Licence £m	Total £m
Cost			
1 November 2006	5 6	18 2	23 8
Additions	-	-	-
30 September 2007	5 6	18 2	23.8
Accumulated amortisation			
1 November 2006	2 2	4 3	6 5
Charge for the period	0 3	1 5	1 8
30 September 2007	2.5	5 8	8 3
Net book value			
30 September 2007	3.1	12 4	15.5
31 October 2006	3 4	13 9	17 3

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 period has been charged, totalling £0 3m (2006 £0 2m)

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 period £1 5m has been charged (2006 £1 7m)

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

11 TANGIBLE FIXED ASSETS

	Aircraft* £m	Motor Vehicles £m	Office Equipment and Computers £m	Freehold Land and Buildings £m	Total £m
Cost/valuation					
1 November 2006	62 3	0 3	9 3	4 3	76 2
Additions	3 3	-	0 5	-	3 8
Disposals	(5 4)	-	(1 0)	-	(6 4)
30 September 2007	60 2	0 3	8 8	4 3	73 6
Depreciation					
1 November 2006	28 7	0 3	7 1	0 6	36 7
Provided in the period	5 1	-	0 9	0 1	6 1
Disposals	(2 6)	-	(1 0)	-	(3 6)
30 September 2007	31 2	0 3	7 0	0 7	39 2
Net book value					
30 September 2007	**29.0**	**-**	**1 8**	**3.6**	**34 4**
31 October 2006	33 6	-	2 2	3 7	39 5

* Aircraft includes aircraft, equipment and spares, engines, modifications and catering equipment

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

The net book value of these assets at 30 September 2007 was £1 7m 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	
30 September 2007	1 7
Historical cost	
1 November 2006	4 5
Additions	-
30 September 2007	4 5
Depreciation	
1 November 2006	2 8
Provided in the period	0 4
30 September 2007	3 2
Net book value at historical cost at 30 September 2007	**1 3**

The net book value of assets held under finance leases and hire purchase contracts at 30 September 2007 was £0 8m (2006 £1 2m) The depreciation charged in the period for these assets was £0 4m (2006 £0 4m)

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

12 STOCK

	30 September 2007 £m	31 October 2006 £m
Bar and catering stock	**0.3**	0 8
Engineering consumable stock	**4.1**	4 2
	4.4	5 0

13 DEBTORS

	30 September 2007 £m	Restated 31 October 2006 £m
Trade debtors	**18.9**	13 3
Amounts owed by group undertakings	**138.9**	191 7
Other debtors	**6.6**	6 4
Deferred lease rentals	**-**	8 6
Deferred tax asset (note 16)	**0.8**	-
Corporation tax recoverable	**6.0**	-
Prepayments and payments in advance to suppliers	**50.9**	13 5
	222.1	233 5

Included in prepayments are security deposits of £36 8m (2006 £11 1m), which are held as security against hire purchase assets and operating leases

14 CREDITORS: amounts falling due within one year

	30 September 2007 £m	31 October 2006 £m
Bank loans and overdrafts	**2.0**	23 1
Trade creditors	**14.7**	22 9
Corporation tax	**-**	14 6
Group relief payable	**59 8**	25 1
Amounts due to group undertakings	**4.3**	5 8
Other creditors	**2 0**	2 4
Other taxes and social security costs	**4 8**	2 3
Accruals and deferred income	**72 7**	53 9
	160 3	150 1

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

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

15 CREDITORS: amounts fallng due after more than one year

	30 September 2007 £m	31 October 2006 £m
Other loans	5.3	5 5
Deferred income	1 4	-
Obligations under finance leases	1.8	1 8
Bank loans and overdrafts	-	1 9
	8 5	9 2

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

	30 September 2007 £m	31 October 2006 £m
Payable within		
- one year	2 0	23 1
- two to five years	-	1 9
	2 0	25 0

The maturity of obligations under finance leases is as follows

	30 September 2007 £m	31 October 2006 £m
Payable within two to five years	1 8	1 8

16 PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2007 £m	31 October 2006 £m
Aircraft maintenance provision (i)	55.2	49 8
Deferred taxation (ii)	-	2 3
	55 2	52 1

(i) Aircraft maintenance provision

	30 September 2007 £m	31 October 2006 £m
1 November 2006	49.8	52 9
Provided in the period/year	50 2	42 3
Unwinding of discounted amount	5 8	3 6
Costs incurred	(46.6)	(47 9)
Exchange movements	(4.0)	(1 1)
30 September 2007	55 2	49 8

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

16 Provisions for liabilities and charges (continued)

(ii) Deferred taxation

	30 September 2007 £m
1 November 2006	(5 1)
Impact of reduction in the UK corporate tax rate from 30% to 28% on future periods	0.5
Credited in the period	(1 6)
Recognised in "Statement of total Recognised Gains and Losses"	3.7
30 September 2007	(2 5)

The elements of deferred taxation are as follows

	30 September 2007 £m	31 October 2006 £m
Accelerated capital allowances	(0.3)	2 9
Other short term timing differences	(0.5)	(0 6)
Net deferred tax (asset)/provision	(0 8)	2 3
Deferred tax asset on pension deficit (see note 4ii)	(1 7)	(7 4)
Net deferred tax asset	(2 5)	(5 1)

17 CALLED UP SHARE CAPITAL

	30 September 2007 £m	31 October 2006 £m
Authorised		
100,000 ordinary shares of £1 each	0.1	0 1
Allotted, called up and fully paid		
100,000 ordinary shares of £1 each	0 1	0 1

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

18 EQUITY SHAREHOLDERS' FUNDS

	Share capital £m	Revaluation reserve £m	Profit and loss account £m	Total £m
1 November 2006 as previously reported	0 1	1 1	76 4	77 6
Prior year adjustments (see note 1)	-	-	(0 5)	(0 5)
1 November 2006 as restated	0 1	1 1	75 9	77 1
Profit for the financial period	-	-	38 4	38 4
Dividends (see note 9)	-	-	(30 0)	(30 0)
Share-based payment	-	-	2 1	2 1
Actuarial gain recognised in the pension schemes	-	-	13 2	13 2
Deferred tax arising on gains in the pension schemes	-	-	(3 7)	(3 7)
Realisation of revaluation reserve	-	(0 4)	0 4	-
30 September 2007	**0.1**	**0 7**	**96 3**	**97.1**

19 FINANCIAL COMMITMENTS

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

	Land and Buildings 30 September 2007 £m	**Aircraft and Other Equipment 30 September 2007 £m**	Land and Buildings 31 October 2006 £m	Aircraft and Other Equipment 31 October 2006 £m
Expiring within				
One year	**0.1**	**1 3**	0 2	1 1
Two to five years	**0.2**	**46 8**	0 4	60 1
Thereafter	**0.2**	**7 5**	0 7	6 8
	0.5	**55 6**	1 3	68 0

The Company has contracted to purchase twelve Boeing 787 aircraft, the first delivery of which is expected Autumn 2010 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$1 7bn

20 POST BALANCE SHEET EVENT

On 11 February 2008, an interim dividend of £100 million was paid to the Company's sole shareholder First Choice (Euro) Limited This will be accounted for as a reduction in equity in the year to 30 September 2008

On 1 May 2008 First Choice Airways Limited and Thomsonfly Limited received a new joint Air Operating Certificate from the Civil Aviation Authority The companies continue to fly under the First Choice Airways and Thomsonfly brands

NOTES TO THE FINANCIAL STATEMENTS
for the 11-month period ended 30 September 2007 (continued)

21 ULTIMATE PARENT COMPANY

Until 3 September 2007 First Choice Holidays Limited, 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 (Euro) 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 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