
FINAL NOTICE

To: MyTravel Group plc

**Of: Parkway One
Parkway Business Centre
300 Princess Road
Manchester M14 7QU**

Date: 14 July 2005

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS ("the FSA") gives notice about its decision to take the following action

ACTION

1. The FSA gave MyTravel Group plc ("MyTravel") a Revised Further Decision Notice dated 12 July 2005. For the reasons set out below and pursuant to section 91 of the Financial Services and Markets Act 2000 ("the Act"), the FSA has decided to impose a financial penalty of £240,000 on MyTravel in respect of a contravention of the Listing Rules made by the FSA under Part VI of the Act ("the Listing Rules") as specified in paragraph 2 below.

Delay in announcing change in expectation as to performance

2. On or about 31 July 2002, MyTravel became aware of certain balance sheet exposures that were to be charged to profit for the financial year ending 30 September 2002 ("FY02"). It therefore changed its expectation as to its performance, specifically as to the source, composition and timing of its profits for FY02. That change, if made public, would have been likely to lead to substantial movement in the price of its listed securities. An obligation therefore arose to notify a Regulatory Information Service without delay of all relevant information which was not public knowledge concerning that change.

MyTravel did not announce this information until 28 November 2002. By failing to make that notification without delay, MyTravel contravened Listing Rule 9.2(c).

REASONS FOR THE ACTION

The Facts

Background

3. MyTravel is a fully integrated group of businesses that operates in the travel industry packaging and selling travel products. Before a change of name announced on 27 November 2001 (and effected on 8 February 2002) MyTravel was known as Airtours PLC. Operations are conducted under the MyTravel brand and a number of other established tour operator and travel retailer brand names, including Airtours, Going Places, Direct Holidays, Bridge, Cresta, Late Escapes, Manos, Panorama, Aspro and Escapades. Products and services are offered through a range of retail networks including its own branded outlets and via the internet.
4. The operating business units of MyTravel are organised into different divisions based on geography. One of these divisions is MyTravel UK ("MTUK") which consists of the business units located in the United Kingdom.
5. MyTravel's shares were admitted to the London Stock Exchange Official List on 31 March 1983. Currently the shares are a component of the FTSE 250 index.
6. On 27 November 2001 MyTravel announced record operating profit for the financial year ended 30 September 2001 ("FY01") of £147.4 million. At the same time MyTravel gave guidance at its annual results presentation that operating profit for FY02 would be broadly similar. The market consensus for FY02 was £145 million with analysts' predictions ranging from £86.7 million to £217 million.
7. Entering FY02 MyTravel was confronted with the acutely challenging business conditions that followed the events of 11 September 2001. In particular, the deferral of bookings and travel decisions by MyTravel customers posed the threat of significant losses in the first quarter of FY02 and this led to uncertainty and risk to the profit forecast.
8. The poor trading and business conditions were confirmed when MyTravel reported a poor first quarter on 7 February 2002. MyTravel announced that it would see significantly increased losses for the first half of FY02, although it reported that it continued to be cautiously optimistic for the full year.
9. The significantly increased losses were confirmed when MyTravel reported operating losses of £122.3 million for the six months ending 30 March 2002 (2001: £77.4 million) on 22 May 2002. Owing to the seasonal nature of its business, it was normal for MyTravel to make losses in the first quarter of the financial year, but not of this order. MyTravel also made clear in the announcement of results that the loss had not yet been recovered and that its full

year results were dependent on the recovery of bookings at a sufficient margin during the remainder of the year. As a result of a continued deferral in bookings, MyTravel explained that it could no longer be confident of recovering all the increased first quarter losses.

10. MyTravel announced on 23 July 2002 that group trading across all divisions was in line with expectations.
11. By the year end, at 30 September 2002, MyTravel was confronted by a difficult and complex environment exacerbated by ongoing change. Accounting policies previously relied on by MyTravel were subject to scrutiny and challenge, and trading and business risks brought about by the dependence on the volatile and uncertain market in late sales of package holidays materialised. Furthermore, and as a result, in the period after the year end, there were changes in the senior management.
12. In the event, on 28 November 2002, MyTravel announced a loss in FY02 of £72.8 million before tax but after e-commerce costs, exceptional items and goodwill amortisation.

Prior Years Exposures

13. During the early part of FY02 MTUK carried out a review of the accounting records and balance sheets of certain MTUK business units.
14. As a result of the review work MTUK identified a number of different balances totalling £24.3 million (the "Prior Years Exposures") that were not accounted for in the closing balance sheet and accounting records of MyTravel for FY01. These amounts were included in a schedule given to the Group Finance Director on 31 July 2002, eight days after the announcement referred to at paragraph 10 above. At about this time, the Group Finance Director discussed the Prior Years Exposures with the Chief Executive Officer.
15. Analysis by MTUK revealed that the Prior Years Exposures were the result of accounting or reconciliation errors that had occurred in a number of years prior to FY02. MyTravel (acting through its Group Finance Director and its Chief Executive Officer) agreed with MTUK that, as the value of these balances was known and certain, they should be written-off with a charge on the profits for FY02, as these balances represented an inadvertent cumulative overstatement of the profits for FY01 and previous years. This was the approach which had been taken by MTUK in compiling its profit forecasts.

Change in expectations

16. MyTravel's profit forecast calculations were based on a composite of year-to-date profit and the profit expected from future performance in the remaining part of the year.
17. At the time that MyTravel's Group Finance Director and its Chief Executive Officer became aware of the Prior Years Exposures (at the end of July 2002) they took the view that, because those balances sheet exposures had been

reflected in MTUK's internal (and therefore MyTravel's) profit forecasts, MyTravel's overall profit forecast remained unaffected by these factors.

18. This view was based on their expectations that there would be certain other non-recurring gains which would off-set these non-recurring losses. Nonetheless, MyTravel had changed its expectations as to the source, composition and timing of the factors which made up its forecast profit.
19. On behalf of MyTravel, its Group Finance Director and its Chief Executive Officer took the decision on or about 31 July 2002 that no announcement of this matter needed to be made. This decision was based on an understanding that, in circumstances in which MyTravel's profit forecast was unaffected, no announcement was required. They took this decision, however, without recourse to the Board of MyTravel and without the benefit of professional advice from their external advisers.

Announcement of 28 November 2002

20. On 28 November 2002, when announcing its results for FY02, MyTravel made an announcement through a Regulatory News Service that made reference to the Prior Years Exposures, describing them as cumulative errors from prior years amounting in total to £26.0m and explaining they had been charged in the 2002 year- end results as exceptional items.

Relevant statutory provisions, rules and guidance

21. Section 91(1) of the Act provides that: *"If the competent authority considers that-*
 - (a) an issuer of listed securities, or*
 - (b) an applicant for listing,**has contravened any provision of listing rules, it may impose on him a penalty of such amount as it considers appropriate."*
22. Pursuant to Part VI of the Act, the FSA makes the Listing Rules and is responsible for the official listing of securities in the UK. The Listing Rules set out the requirements for the admission of securities to the Official List and the continuing obligations of companies whose securities are so admitted.
23. Listing Rule 9.2 states that:
"A company must notify a Regulatory Information Service without delay of all relevant information which is not public knowledge concerning a change:
 - (a) in the company's financial condition;*
 - (b) in the performance of its business; or*
 - (c) in the company's expectation as to its performance;*

which, if made public, would be likely to lead to substantial movement in the price of its listed securities."

24. The FSA regards the continuing obligation requirements of Chapter 9 of the Listing Rules as a fundamental protection for shareholders. These requirements are designed to promote full disclosure to the market of all relevant information on a timely basis to ensure that all users of the market have simultaneous access to the same information. Observance of these continuing obligations is essential to the maintenance of an orderly market in securities and of confidence in the financial system.
25. Compliance with Listing Rule 9.2(c) involves the assessment of the issuer's (subjective) expectation and the (objective) assessment of the likely market impact of any change in that expectation. A listed company (together with, if necessary, its advisers) is normally best placed to assess whether an announcement under Listing Rule 9.2(c) is required. Even in the absence of a change to the "headline" full year profit expectation, if there is a change in the expectation as to the source of that profit and/or the phasing of that profit through the financial year and/or the composition of that profit, the company must consider whether such a change would, if made public, be likely to lead to substantial movement in its share price.
26. A company's belief that a decision to write off a large amount can be compensated by offsetting balances in its forecast is not a sufficient basis in itself for the company to conclude that no announcement is necessary; the company must consider whether the market should be given the opportunity to assess the reasonableness of that belief for itself, through an announcement by the company.

Price sensitivity and delay

27. The FSA is satisfied that the information concerning the Prior Years Exposures was known to MyTravel, through its then Group Finance Director and its then Chief Executive Officer, on or about 31 July 2002. Had that information been made known to the market, it would have been likely to lead to substantial movement in the price of MyTravel's listed securities. Although MyTravel had announced on 23 July 2002 that group trading across all divisions was in line with expectations, the market was aware that the prevailing business conditions were challenging. The FSA considers that, in the context of investor nervousness concerning this sector, and market sensitivity to accounting issues, such an announcement would have come as an unwelcome surprise to investors. The market would have been concerned that further bad news arising out of problems with MyTravel's accounting systems may have been to come.
28. Although the FSA accepts that MyTravel genuinely believed the Prior Years Exposures had been reflected in its profit forecasts to date, it is nevertheless the case that it changed its expectation as to the forecast source, composition and timing of its profits. Given the high risk business environment and the large amounts concerned, the market should have been given the information promptly. MyTravel, however, by failing to notify the market until the full year results

were announced in November 2002, caused a serious delay in announcing price sensitive information.

SANCTIONS

29. The FSA's policy on the imposition of financial penalties and public censures is set out in Chapter 8 of the UKLA Guidance Manual. The principal purpose of financial penalties is to promote high standards of regulatory conduct by deterring those who have breached regulatory requirements from committing further contraventions and by demonstrating generally the benefits of compliant behaviour. The criteria for determining whether it is appropriate to issue a public censure are similar to those for financial penalties.
30. The FSA considers that MyTravel's failure to deal with the Prior Years Exposures appropriately, once they had been discovered, merits a financial penalty of £240,000. The Prior Years Exposures represented a significant percentage (16.7%) of analysts' consensus view of MyTravel's estimated profits before tax at the beginning of FY02¹. By the end of July 2002, when the existence of the Prior Years Exposures became known, they represented 22.4% of analysts' consensus view of MyTravel's estimated profits before tax².
31. Factors that have been taken into account in determining the penalty imposed on MyTravel are:
 - the delay in announcing the Prior Years Exposures was extensive;
 - the size of the Prior Years Exposures was significant compared to forecasted profit for 2002;
 - MyTravel was aware from about 31 July 2002 of the Prior Years Exposures and did not fully announce them until 28 November 2002;
 - MyTravel did not take advice until after the year end;
 - MyTravel is a sophisticated issuer with large resources;
 - The breach concerns a one-off, non-recurring item not related to MyTravel's fundamental business.
 - There was no intention deliberately to mislead or with-hold information from the market;
 - no previous disciplinary action has been taken against MyTravel; and
 - MyTravel has co-operated fully with the FSA's investigation.

¹ Based on Multex consensus figure at 2 November 2002 of £145m.

² Based on Multex consensus figure at 1 August 2002 of £108.1m

DECISION MAKER

The decision which gave rise to the obligation to give this Notice was made by the Regulatory Decisions Committee.

IMPORTANT

This Final Notice is given to MyTravel in accordance with Section 390 of the Act.

Manner of payment

The penalty must be paid to the FSA in full.

Time for payment

MyTravel must pay to the FSA the full amount of the penalty specified above no later than 28 July 2005.

If the penalty is not paid

If all or any part of the penalty is outstanding after the required date of payment, the FSA may recover the outstanding amount as a debt due to the FSA.

Publicity

Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this Final Notice relates. Under those provisions, the FSA must publish such information about the matter to which this Final Notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to MyTravel or prejudicial to the interests of consumers.

The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

FSA contacts

For more information concerning this matter generally, you should contact James Symington at the FSA (direct line: 020 7066 1256).

Carlos Conceicao

Head of Wholesale

FSA Enforcement Division