

THOMSONFLY LIMITED

COMPANY REGISTRATION NUMBER 444359

DIRECTORS' REPORT AND FINANCIAL  
STATEMENTS

YEAR ENDED 31 DECEMBER 2006

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## THOMSONFLY LIMITED

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## **THOMSONFLY LIMITED**

### **DIRECTORS' REPORT**

**For the year ended 31 December 2006**

The Directors have pleasure in presenting their report together with the audited financial statements of the company for the year ended 31 December 2006

#### **Principal activity and review of the business**

The company's principal activity during the year continued to be the operation of charter and scheduled airline services. The number of passengers carried in 2006 was 7.7 million (2005 8.0 million) and the trading results have been satisfactory. As at the year end, the fleet operated by the company comprised eighteen Boeing 757s, twelve Boeing 767s and seventeen Boeing 737s (2005 nineteen Boeing 757s, thirteen Boeing 767s, nine Boeing 737s).

The company's profit after tax for the year was £99.1 million (2005 £108.3 million). The Directors do not recommend the payment of a dividend (2005 nil).

#### **Future outlook and principal risks**

The company continues to operate in a challenging environment, characterised by increased competition from traditional charter and schedule airlines as well as low cost airlines. The directors continue to ensure that the business is developed to adapt to the changing market place, and as a result are confident that the current level of performance can be maintained.

#### **Accounting policy change to aircraft overhaul and maintenance provision**

Internal labour costs have not previously been included in the provision for future airframe checks on the basis that these costs are ongoing costs of the business. Management have reassessed this policy in preparation for the merger with First Choice Holidays PLC and believe that a more appropriate basis of accounting would be to provide for the costs of directly attributable internal costs and external costs. The impact of the change is to reduce net assets at 31 December 2004 by £5.9m, increase the loss before tax in 2005 by £2.7m and to increase the loss before tax in 2006 by £3.5m.

#### **Key performance indicators**

Key performance indicators are used to monitor the key business variables of asset utilisation, price and margin. Aircraft utilisation in hours per day / season and passenger load factors are the key utilisation measures for flight operations whilst price and margin per passenger are the key profitability measures.

Given the nature of the business, these measures are applied by season, to both current and future seasons on sale. The Directors believe these KPI measures are appropriate for the efficient management of the business.

#### **Disabled employees**

The policy of the company is to give full and fair consideration to applications for employment from disabled persons having regard to their particular aptitudes and abilities. Whenever possible the company continues to employ those employees who have become disabled. The company makes arrangements for the training and career development of all disabled employees.

#### **Employee involvement**

The policy of the company is to ensure that employees are kept well informed by way of briefings, staff reports, newsletters and notices describing the activities and performance of group undertakings.

#### **Charitable and political donations**

There were no charitable or political donations made during the year (2005 charitable donations £5,000, political donations £nil).

## THOMSONFLY LIMITED

### DIRECTORS' REPORT (continued)

For the year ended 31 December 2006

#### Directors

Directors who held office during the year are

K Baker  
N Fisk  
C Sharples  
N White  
N Winspear  
M Boyle  
R Hussey  
I Ludlow  
C Mitchell  
M Russell  
D Taylor

(resigned 18 September 2006)  
(resigned 28 February 2006)  
(appointed 7 February 2006)  
(appointed 9 June 2006)  
(appointed 22 February 2006)  
(appointed 12 June 2006)

#### Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

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 the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Disclosure information

Each of the persons who is a Director at the date of approval of this report confirms that

- So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- The Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

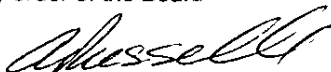
#### Provision of information to auditors

The Directors confirm that so far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware, and the Directors have taken all the steps that ought to have been taken as Directors, in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

#### Auditors

The company has passed an elective resolution to dispense with the holding of annual general meetings. The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

By order of the Board



A Russell  
Company Secretary  
Registered Office  
Wigmore House  
Wigmore Place  
Wigmore Lane  
Luton  
LU2 9TN

14 June 2007

## Independent Auditor's report to the member of Thomsonfly Limited

We have audited the financial statements of Thomsonfly Limited for the year ended 31<sup>st</sup> December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's member as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit

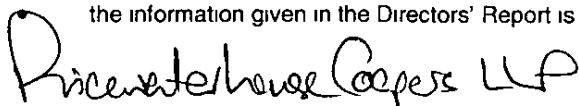
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year 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.



PricewaterhouseCoopers LLP  
Chartered Accountants and registered Auditors  
14 June 2007

**THOMSONFLY LIMITED**

**PROFIT AND LOSS ACCOUNT**

**For the year ended 31 December 2006**

		<b>2006</b>	<b>2005</b>
	<b>Notes</b>	<b>£000s</b>	<b>restated £000s</b>
Turnover	3	1,101,161	1,002,997
Cost of sales		<u>(706,666)</u>	<u>(591,426)</u>
<b>Gross profit</b>		<b>394,495</b>	<b>411,571</b>
Operating costs		<u>(240,771)</u>	<u>(258,961)</u>
<b>Operating profit</b>	4	<b>153,724</b>	<b>152,610</b>
Fundamental restructuring costs	5	(10,283)	-
Profit on disposal of fixed assets		<u>1,312</u>	<u>8</u>
<b>Profit on ordinary activities before interest and taxation</b>		<b>144,753</b>	<b>152,618</b>
Net interest receivable excluding pension interest	7	2,701	344
Pension interest payable	21	<u>(5,200)</u>	<u>(3,000)</u>
<b>Profit on ordinary activities before taxation</b>		<b>142,254</b>	<b>149,962</b>
Tax on profit on ordinary activities	8	<u>(43,161)</u>	<u>(41,635)</u>
<b>Profit for the financial year</b>	19	<b><u>99,093</u></b>	<b><u>108,327</u></b>

All results relate to continuing activities

The accompanying notes on pages 8 to 26 form part of the financial statements

**THOMSONFLY LIMITED**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES ("STRGL")**

**For the year ended 31 December 2006**

	Notes	2006 £'000	2005 restated £'000
Profit retained for the year		99,093	108,327
Actuarial gain/(loss) on pension schemes	21	106,933	(143,092)
Tax movement relating to net pension deficit			
Corporation tax		1,921	1,095
Deferred tax		(34,001)	41,833
Total gains recognised for the year		<u>173,946</u>	<u>8,163</u>
Impact of prior year adjustments	1	<u>(7,811)</u>	
Total profit recognised since last annual report		<u>166,135</u>	

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

The accompanying notes on pages 8 to 26 form part of the financial statements

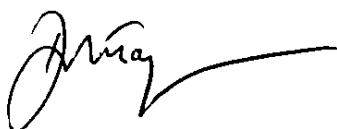
**THOMSONFLY LIMITED**

**BALANCE SHEET**

**As at 31 December 2006**

	Notes	2006 £000s	2005 restated £000s
<b>Fixed Assets</b>			
Tangible assets	9	187,704	208,835
Investments	10	<u>9,589</u>	<u>9,589</u>
		197,293	218,424
<b>Current Assets</b>			
Stocks	11	5,770	4,511
Debtors amounts falling due within one year	12	443,498	354,759
Debtors amounts falling due after more than one year	12	3,504	4,035
Cash at bank and in hand		<u>11,234</u>	<u>-</u>
		464,006	363,305
<b>Creditors - Amounts falling due within one year</b>	13	(152,505)	(146,174)
<b>Net current assets</b>		<u>311,501</u>	<u>217,131</u>
<b>Total assets less current liabilities</b>		<u>508,794</u>	<u>435,555</u>
<b>Creditors - Amounts falling due after more than one year</b>	14	(991)	(37,136)
Provisions for liabilities and charges	17	(74,860)	(49,383)
Deferred tax liability	18	<u>(570)</u>	<u>(11,590)</u>
<b>Net assets excluding pension liability</b>		432,373	337,446
Net pension liability		(157,373)	(236,392)
<b>Net assets including pension liability</b>		<u>275,000</u>	<u>101,054</u>
<b>Capital and reserves</b>			
Called up share capital - equity	19	118,615	118,615
Reserves	19	<u>156,385</u>	<u>(17,561)</u>
<b>Total shareholder's funds</b>	20	<u>275,000</u>	<u>101,054</u>

The financial statements on pages 5 to 26 were approved by the Board of Directors on 14 June 2007 and were signed on its behalf by



**DM Taylor**  
Director



## **THOMSONFLY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2006**

#### **1 Accounting policies**

The principal accounting policies of the group are summarised below. These policies have been applied consistently throughout the current and preceding years, except where noted below.

##### **1.1 Basis of preparation**

These financial statements are prepared on the going concern basis, under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards.

##### **1.2 Turnover**

Turnover represents the aggregate value of revenue receivable from chartered and scheduled airline services and related sales. Revenue is recognised on the date of departure of the flight.

##### **1.3 Fixed assets and depreciation**

Fixed assets are recorded at cost and are depreciated on a straight line basis over their estimated useful lives:

Aircraft and spares: 5 - 18 years to a 20% residual value

Buildings: up to a maximum of 50 years

Short Leaseholds: over period of lease

Fixtures, fittings, machinery and equipment: 3 - 10 years

Useful lives are estimated taking into account the rate of technological change and intensity of use of the assets.

Aircraft and spares include the costs incurred in replacing repairable aircraft spares that are depreciated over 5 years.

##### **1.4 Long term provisions**

Long term provisions with a maturity greater than 1 year, with the exception of pensions and deferred taxation, are discounted at the market rate yield on commercial bonds.

##### **1.5 Aircraft overhaul and maintenance provision**

Provision is made for major overhauls of leased engines including auxiliary power units (APU's), and landing gear, as a consequence of the legal obligation arising under the terms of the leases. The provision is calculated based on the number of hours or cycles flown in the case of engines & APU's, or elapsed time for landing gear.

The cost of major overhauls of owned engines including APU's, and landing gear is capitalised. Amortisation is accounted for over the planned hours or cycles to the next overhaul, in the case of engines & APU's, or planned elapsed time for landing gear.

##### **1.6 Accounting policy change to aircraft overhaul and maintenance provision**

Internal labour costs have not previously been included in the provision for future airframe checks on the basis that these costs are ongoing costs of the business. Management have reassessed this policy in preparation for the merger with First Choice Holidays PLC and believe that a more appropriate basis of accounting would be to provide for the costs of directly attributable internal costs and external costs. The impact of the change is to reduce net assets at 31 December 2004 by £5.9m, increase the loss before tax in 2005 by £2.7m and to increase the loss before tax in 2006 by £3.5m.

## **THOMSONFLY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

#### **1 7 Leased assets**

Assets held under finance leases are included in fixed assets. The interest element of lease payments is charged to the Profit and Loss Account in proportion to the outstanding finance lease obligation. All other leases are regarded as operating leases and rentals are charged to the Profit and Loss Account as incurred.

#### **1 8 Stock**

Stock is stated at the lower of cost and net realisable value.

#### **1 9 Debtors falling due after more than one year**

Loans and deposits with a maturity greater than 1 year that do not bear interest are discounted at the market rate yield on commercial bonds.

#### **1 10 Pensions**

The company operates defined contribution and defined benefit schemes, including one scheme that is closed to future accrual.

##### **Defined contribution schemes**

The company operates defined contribution pension schemes, the assets of which are held separately from those of the company in independently administered funds. The pension cost charge disclosed in note 21 represents contributions payable by the company to the fund.

##### **Defined benefit scheme**

The company operates defined benefit pension schemes for the benefit of eligible employees, the assets of which are held separately from those of the company in independently administered funds.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Current and past service cost is recognised in the profit and loss account whilst any actuarial gains and losses are recognised through the statement of total recognised gains and losses. Interest on the pension obligation and the expected return on pension assets are recognised within interest in the profit and loss account.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

The TUI Pension Scheme (UK) is open to qualifying employees of UK based group companies. Each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and so accounts for the scheme on a defined contribution basis. The scheme assets and liabilities are recognised within the TUI Northern Europe Limited group accounts.

## **THOMSONFLY LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

#### **1 11 Foreign currency translation**

Monetary assets and liabilities denominated in currencies other than pounds sterling are translated at year end rates of exchange. To the extent that foreign currency denominated monetary assets and liabilities are covered by forward exchange contracts, these are translated at the appropriate contract rate. Foreign exchange gains and losses are recognised in the Profit and Loss Account.

#### **1 12 Aircraft deferred income**

Aircraft deferred income represents the unamortised element of aircraft manufacturer credits relating to new aircraft which are included in earnings over five to ten years from the date of delivery.

#### **1 13 Deferred taxation**

Deferred taxation has been recognised as a liability or asset if a transaction has occurred at the balance sheet date that gives rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is recognised to the extent that the transfer of economic benefits in the future are more likely to occur. Deferred tax assets and liabilities recognised have not been discounted.

#### **1 14 Investments**

Investments are stated at cost less provisions for impairment.

## THOMSONFLY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006

#### 2 Cash flow statement, group accounts and related party disclosures

The company is a wholly-owned subsidiary of Thomson Travel Group (Holdings) Limited and is included in the consolidated financial statements of TUI Northern Europe Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of TUI Northern Europe Limited. The company has also taken advantage of the exemption available under s228(2) Companies Act and has not prepared group accounts.

#### 3 Segmental analysis

	2006 £000s	2005 £000s
Turnover - Group companies	907,979	827,616
- Other companies	<u>193,182</u>	<u>175,381</u>
	<u>1,101,161</u>	<u>1,002,997</u>

All profits arise in the UK and net assets are located in the UK.

#### 4 Operating profit

Operating profit is stated after charging/(crediting)

	2006 £000s	2005 £000s
Depreciation and amounts written off tangible fixed assets	34,676	27,231
Hire of plant and equipment	285	303
Operating lease rentals for plant and machinery	68,295	75,472
Operating lease rentals for land and buildings	1,745	1,774
Auditors' remuneration	65	59
Pension past service credit (note 21)	(8,948)	-
Management charge	<u>1,564</u>	<u>2,039</u>

The past service credit is in respect of changes in scheme rules and actuarial assumptions relating to the proportion of pension entitlement commuted for cash on retirement. This is a result of the "A Day" legislation changes, which significantly increased the value permitted to be commuted to a tax free cash lump sum.

#### 5 Fundamental restructuring costs

During the year £10.3m (2005: nil) was charged to the profit and loss account in respect of the ongoing restructuring of the company. These costs include redundancy costs of £2.8m, £3.9m of aircraft disposal costs, £3.3m in respect of contract termination costs and £0.3m for other related costs.

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**6 Employees' and Directors' emoluments**

(1) (i) The average monthly number of employees during the year was as follows

	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>
Engineering	366	356
Cabin Crew	1,556	1,681
Pilots	550	570
Other	368	420
	<u>2,840</u>	<u>3,027</u>

(ii) Employee costs during the year amounted to

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
Wages and salaries	99,650	105,940
Social security costs	11,230	11,386
Other pension costs	16,260	19,526
	<u>127,140</u>	<u>136,852</u>

(2) The details of directors' emoluments are as follows

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
Aggregate emoluments	<u>1,122</u>	<u>1,739</u>

Retirement benefits are accruing to 4 directors under a defined benefit pension scheme (2005 5)

There is one director who is drawing a pension but continues to work for the company with a salary of £127,000, who has not rejoined the pension scheme

The emoluments, excluding pension contributions, relating to the highest paid director are

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
Aggregate emoluments	<u>229</u>	<u>540</u>

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**7 Net interest receivable/(payable) excluding pension interest**

	<b>2006</b>	<b>2005</b>
		<b>restated</b>
	<b>£000s</b>	<b>£000s</b>
<b>Interest receivable from</b>		
Group companies	4,728	4,131
Third parties	<u>263</u>	<u>-</u>
	4,991	4,131
<b>Interest payable to</b>		
Third parties	<u>(2,057)</u>	<u>(2,298)</u>
	2,934	1,833
<b>Discounting of debtors</b>		
Movement for the year	<u>(233)</u>	<u>(1,489)</u>
<b>Net interest receivable</b>	<u>2,701</u>	<u>344</u>

**8 Taxation**

The taxation for the period comprises

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
<b>Current tax</b>		
Group relief	56,193	46,263
Adjustments in respect of previous periods	<u>(1,878)</u>	<u>(1,741)</u>
<b>Current year tax charge</b>	<u>54,315</u>	<u>44,522</u>
<b>Deferred tax (note 18)</b>		
Current year	(14,502)	(1,874)
Adjustments in respect of previous periods	<u>3,348</u>	<u>(1,013)</u>
<b>Total deferred tax</b>	<u>(11,154)</u>	<u>(2,887)</u>
<b>Tax on profit on ordinary activities</b>	<u>43,161</u>	<u>41,635</u>

**THOMSONFLY LIMITED****NOTES TO THE FINANCIAL STATEMENTS (continued)****For the year ended 31 December 2006****8 Taxation (continued)**

The tax for the year is higher (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	2006 £000s	2005 £000s
<b>Factors affecting tax charge in the period</b>		
Profit on ordinary activities before taxation	<u>142,254</u>	<u>149,962</u>
Expected tax charge at 30% (2005 30%)	42,676	44,989
<b>Effects of</b>		
Expenses not deductible for tax purposes	263	86
Income not taxable	(1,248)	(1,061)
Accelerated capital allowances and other timing differences	14,502	2,250
Adjustments to UK tax charge in respect of previous period	<u>(1,878)</u>	<u>(1,741)</u>
	<u>54,315</u>	<u>44,522</u>

**Factors that may affect future tax charges**

Future tax charges may be significantly reduced by the level of pension scheme contributions

THOMSONFLY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006

9 Tangible assets

	Leasehold land and buildings	Aircraft and spares	Fixtures, Equipment and motor vehicles	Total
	£000s	£000s	£000s	£000s
<b>Cost</b>				
At 1 January 2006	22,238	296,939	63,568	382,745
Additions	-	14,037	1,965	16,002
Disposals	(2,868)	(5,727)	(995)	(9,590)
At 31 December 2006	19,370	305,249	64,538	389,157
<b>Depreciation</b>				
At 1 January 2006	14,852	109,802	49,256	173,910
Charge for the year	708	29,473	4,495	34,676
Disposals	(1,638)	(4,510)	(985)	(7,133)
At 31 December 2006	13,922	134,765	52,766	201,453
<b>Net book amount</b>				
At 31 December 2006	5,448	170,484	11,772	187,704
At 31 December 2005	7,386	187,137	14,312	208,835

The net book amount of leasehold land and buildings comprises

	2006 £000s	2005 £000s
Long leaseholds	4,403	6,718
Short leaseholds	1,045	668
	5,448	7,386
	2006 £000s	2005 £000s
Capital expenditure contracted but not yet provided for amounts to	7,500	-



# THOMSONFLY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006

### 10 Investments

	<u>Investments in subsidiary undertakings</u>	<u>Other investments</u>	<u>Total</u>
	£000s	£000s	£000s
<b>Cost and net book value</b>			
At 1 January 2006 and 31 December 2006	<u>1,201</u>	<u>8,388</u>	<u>9,589</u>

Included in other investments is an investment in National Air Traffic Services of £8.2m (2005: £8.2m)

#### Investment in subsidiary undertakings

The following companies are wholly-owned subsidiary undertakings of the Company and were involved in supporting the operations of the charter airline. They are registered in England and Wales, with the exception of Britannia Airways GmbH, which is incorporated in the Federal Republic of Germany.

Skymead Leasing Limited

Skymead Maintenance Limited

Orion Airways Limited

The following companies are wholly-owned subsidiary undertakings of the Company that are currently dormant. They are registered in England and Wales.

Skylease Limited

Skymead Limited

Airlink International Limited

Britannia Airways (Catering) Limited

Britannia Airways GmbH is currently in liquidation.

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**11 Stocks**

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
Raw materials and consumables	<u>5,770</u>	<u>4,511</u>

**12 Debtors**

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
<b>Amounts falling due within one year</b>		
Trade debtors	18,634	8,886
Amounts owed by fellow group undertakings	381,457	297,191
Other debtors	5,478	4,628
UK Corporation tax	3,766	3,602
Prepayments and accrued income	<u>34,163</u>	<u>40,452</u>
	<u>443,498</u>	<u>354,759</u>

Amounts owed by group undertakings are unsecured and have no fixed date of repayment. Balances with dormant companies are interest free and all others bear interest at the Bank of England base rate.

**Amounts falling due after more than one year**

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
Lease deposits	4,150	4,448
Less discounts to present value	<u>(646)</u>	<u>(413)</u>
	<u>3,504</u>	<u>4,035</u>

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**13 Creditors**

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
<b>Amounts falling within one year</b>		
Loans (see note 15)	-	3,278
Trade creditors	52,264	40,229
Bank overdraft	-	3,526
Other taxation and social security	3,873	3,513
Group relief payable	52,558	42,496
Accruals	23,328	34,727
Deferred income	20,061	13,828
Other creditors	421	4,577
	<u>152,505</u>	<u>146,174</u>

Amounts owed to group undertakings are unsecured and have no fixed date of repayment. Balances with dormant companies are interest free and all others bear interest at the Bank of England base rate.

**14 Creditors**

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
<b>Amounts falling due after more than one year</b>		
Loans (see note 15)	-	35,614
Deferred income	<u>991</u>	<u>1,522</u>
	<u>991</u>	<u>37,136</u>

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**15 Loans**

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
Repayable by instalments		
Instalments due within one year	-	3,278
Instalments due between two and five years	-	15,070
Instalments after more than five years	-	20,544
Total loans	-	35,614

The secured loan held in respect of two Boeing 767 aircraft was repaid in full on 8 May 2006

**16 Operating lease commitments**

At 31 December 2006, the Company had future annual operating lease commitments which expire as follows

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
<b>Aircraft, plant and equipment</b>		
Within one year	2,289	3,474
Between two and five years	38,421	60,774
More than five years	22,348	-
	<u>63,058</u>	<u>64,248</u>

	<b>2006</b>	<b>2005</b>
	<b>£000s</b>	<b>£000s</b>
<b>Land and buildings</b>		
Within one year	73	274
Between two and five years	219	-
After five years	554	1,402
	<u>846</u>	<u>1,676</u>

# THOMSONFLY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006

### 17 Provisions for liabilities and charges

	Maintenance Provision £000s	Restructure Provision £000s	Other Provisions £000s	Orion Pension £000s	Total £000s
At 1 January 2006	32,183	2,457	3,134	450	38,224
Restatement of opening balances	11,159				11,159
Restated at 1 January 2006	43,342	2,457	3,134	450	49,383
Charge to the profit and loss account	34,718	2,400	3,248	-	40,366
Transferred to pension provision	-	-	-	(450)	(450)
Utilised during the year	(11,130)	(2,032)	(1,277)	-	(14,439)
At 31 December 2006	66,930	2,825	5,105	-	74,860

The aircraft overhaul and maintenance provision represents the expected cost of maintaining the company's leased aircraft and spares. Exact determination of the value and timing of the related expenditure is not possible, but the provision is based upon past experience of the length of time between, and cost of, overhauls. Exact determination of the value and timing of the related expenditure is not possible, but can be averaged over the aircraft fleet and over time.

The restructure provision represents redundancy costs in relation to the ongoing restructuring of the company.

Other provisions include legal provisions in respect of onerous contracts with West Midlands International Airport Limited, a group company disposed of in 2005, and a provision for contract termination costs payable to a major supplier.

### 18 Deferred tax

Deferred taxation provided in the accounts is as follows

	2006 £000s	2005 restated £000s
At 1 January	89,722	42,455
Prior year adjustments	-	2,547
As 1 January as restated	89,722	45,002
Credited to the profit and loss account in respect of current year	14,502	1,874
(Charged)/credited to the profit and loss account in respect of prior periods	(3,348)	1,013
(Charged)/credited to the STRGL	(34,001)	41,833
At 31 December	66,875	89,722

	2006 £000s	2005 restated £000s
Deferred tax is provided in respect of the following timing differences		
Accelerated capital allowances	(1,774)	(15,109)
Other timing differences	1,204	3,519
Deferred tax excluding that relating to pension liability	(570)	(11,590)
Pension asset (note 21)	67,445	101,312
Total provision for deferred tax	66,875	89,722

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**19 Capital and reserves**

	2006 £000s	2005 £000s
<b>(i) Share capital</b>		
<b>Authorised</b>		
150,000,000 Ordinary shares of £1 each	<u>150,000</u>	<u>150,000</u>
<b>Issued and fully paid</b>		
118,615,001 Ordinary shares of £1 each	<u>118,615</u>	<u>118,615</u>

**(ii) Reserves**

	2006 restated £000s
At 1 January	(9,750)
Prior year adjustments	<u>(7,811)</u>
At 1 January as restated	(17,561)
Actuarial gain on pension schemes	106,933
Tax impact on actuarial gain on pension schemes	(32,080)
Retained profit for the financial year	<u>99,093</u>
At 31 December	156,385
Less pension liability	<u>157,373</u>
Profit and loss reserve excluding pension liability	<u>313,758</u>

**20 Reconciliation of movements in shareholder's funds**

	2006 restated £000s
Opening shareholder's funds at 1 January	108,865
Prior year adjustments	<u>(7,811)</u>
At 1 January as restated	101,054
Profit for the financial year	99,093
Actuarial gain on pension schemes	106,933
Tax impact on actuarial gain on pension schemes	<u>(32,080)</u>
Closing shareholder's funds at 31 December	<u>275,000</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006

## 21 Pensions

**Defined benefits schemes**

The company operates a defined benefit scheme namely the Britannia Airways Limited Superannuation and Life Assurance Scheme (BAL Scheme). This scheme is designed to provide retirement benefits for the company's pilots. The company also operates the Orion Airways Pension & Life Assurance Scheme, which is closed to further accrual. Pension costs of the schemes are assessed in accordance with the advice of an independent professionally qualified actuary on the basis of bi-annual (BAL) and tri-annual (Orion) valuations using the projected unit credit method. The assets of the schemes are held through independent trustee-administered funds separate from the assets of the company.

The BAL scheme is designed to provide retirement benefits for Thomsonfly's pilots. The most recent actuarial valuation of the BAL scheme was at 31 March 2004. At 31 March 2004, the market value of the scheme assets was £301.4m and covered 71.4% of projected scheme liabilities. The preparation of the valuation due in 2006 is ongoing, as scheme specific funding is being negotiated. The current agreed employer's contribution rate is 61.3% on average over the different membership categories, some of which is allocated to remove the deficit in the scheme.

The most recent actuarial valuation of the Orion scheme was at 31 March 2004. At 31 March 2004, the market value of the scheme assets was £0.8m and covered 47.4% of projected scheme liabilities. The current agreed employers' contribution is £0.1m per annum, some of which is allocated to remove the deficit in the scheme.

The Orion Pension scheme was not deemed material in previous years, but has been fully disclosed in 2006. Prior year comparative data is not available.

The service cost of providing retirement benefits to employees during the year is charged to operating profit or loss in the year. The full cost of providing amendments to benefits in respect of past service is also charged to operating profit or loss in the year. The expected return on the assets of the schemes during the year based on the market value of scheme assets at the start of the financial year is included within net interest payable. This also includes a charge representing the expected increase in liabilities of the schemes during the year, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in the statement of recognised gains and losses in the year, together with differences arising from changes in assumptions.

The net deficit on defined benefit pension schemes is reported on the balance sheet within the pension liability. This is net of related deferred tax.

The TUI Pension Scheme (UK) is open to qualifying employees of UK based group companies. Each employer is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and so accounts for the scheme on a defined contribution basis. The scheme assets and liabilities are recognised within the group accounts.

**Defined contribution schemes**

The group operates defined contribution schemes for certain employees of the company. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

**FRS 17 disclosure requirements**

FRS 17 Actuarial Assumptions	2006	2005	2004
	Progressive salary scales effective 1st January plus		
Rate of increase in pensionable salaries BAL	4.10%	3.90%	3.90%
Rate of increase in pensionable salaries Orion	N/A	N/A	N/A
Rate of increase in pensions in payment			
BAL Pre 97 members	5.00%	5.00%	5.00%
BAL Post 97 members	3.00%	2.50%	2.50%
Orion	5.00%	5.00%	5.00%
Discount rate	5.00%	4.75%	5.40%
Inflation assumption	3.10%	2.90%	2.90%

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**21 Pensions (continued)**

**FRS 17 disclosure requirements (continued)**

The assets in the scheme and the expected rate of return were

	Long Term rate of return expected at 31 December	BAL Pension Scheme £m	Orion Pension Scheme £m
<b>2006</b>			
Equities	7.75%	320.4	1.1
Gilts	4.10%	19.4	-
Corporate Bonds	5.00%	76.6	-
Property	7.75%	0.8	-
Cash	4.75%	22.3	0.1
Total market value of assets		439.5	1.2
Present value of scheme liabilities		(662.4)	(3.1)
Deficiency in the scheme		(222.9)	(1.9)
Related deferred tax asset		66.9	0.6
Net pension liability		(156.0)	(1.3)

	Long Term rate of return expected at 31 December	BAL Pension Scheme £m	Orion Pension Scheme £m
<b>2005</b>			
Equities	7.75%	372.4	0.8
Bonds	4.61%	33.0	-
Cash	4.70%	4.2	0.2
Total market value of assets		409.6	1.0
Present value of scheme liabilities		(747.3)	(1.4)
Deficiency in the scheme		(337.7)	(0.4)
Related deferred tax asset		101.3	0.1
Net pension liability		(236.4)	(0.3)

	Long Term rate of return expected at 31 December	BAL Pension Scheme £m
<b>2004</b>		
Equities	8.25%	268.7
Bonds	5.10%	48.3
Property	5.10%	0.3
Cash	4.80%	15.6
Total market value of assets		332.9
Present value of scheme liabilities		(531.2)
Deficiency in the scheme		(198.3)
Related deferred tax asset		59.5
Net pension liability		(138.8)



**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
**For the year ended 31 December 2006**

**21 Pensions (continued)**

**FRS 17 disclosure requirements (continued)**

**Analysis of the amount charged to operating profit**

	2006	2005
	£m	£m
<b>BAL Pension scheme</b>		
Current service cost and total operating cost	14.3	10.5
Past service credit and total operating cost	(8.9)	-
	<u>5.4</u>	<u>10.5</u>

The past service credit is in respect of changes in scheme rules and actuarial assumptions relating to the proportion of pension entitlement commuted for cash on retirement. This is a result of the "A Day" legislation changes, which significantly increased the value permitted to be commuted to a tax free cash lump sum.

**Analysis of the amount charged to net interest payable**

	2006	2005
	£m	£m
<b>BAL Pension scheme</b>		
Expected return on pension scheme assets	30.0	25.7
Interest on pension scheme liabilities	(35.1)	(28.7)
Net return	<u>(5.1)</u>	<u>(3.0)</u>
<b>Orion Pension scheme</b>		
Expected return on pension scheme assets	0.1	
Interest on pension scheme liabilities	(0.2)	
Net return	<u>(0.1)</u>	

**Analysis of amount recognised in statement of total recognised gains and losses (STRGL)**

	2006	2005
	£m	£m
<b>BAL Pension scheme</b>		
Actual return less expected return on pension scheme assets	14.6	44.2
Experience gains and losses on scheme liabilities	52.6	0.9
Changes in assumptions underlying the present value of scheme liabilities	41.2	(188.2)
Actuarial gain/(loss) recognised in STRGL	<u>108.4</u>	<u>(143.1)</u>
<b>Orion Pension scheme</b>		
Actual return less expected return on pension scheme assets	0.1	
Experience gains and losses on scheme liabilities	(1.7)	
Changes in assumptions underlying the present value of scheme liabilities	0.1	
Actuarial loss recognised in STRGL	<u>(1.5)</u>	
	<u>106.9</u>	

**THOMSONFLY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**For the year ended 31 December 2006**

**21 Pensions (continued)**

**FRS 17 Disclosure requirements (continued)**

Movement in deficit during the year

	2006	2005
	£m	£m
<b>BAL Pension scheme</b>		
Loss in the scheme at the beginning of the year	(337.7)	(198.3)
Movement in year		
Current service cost	(14.3)	(10.5)
Past service credit	8.9	-
Employer contributions	16.9	17.2
Net return	(5.1)	(3.0)
Actuarial gain/(loss)	108.4	(143.1)
Loss in the scheme at the end of the year	(222.9)	(337.7)

	2006
	£m
<b>Orion Pension scheme</b>	
Loss in the scheme at the beginning of the year	(0.4)
Movement in year	
Employer contributions	0.1
Net return	(0.1)
Actuarial loss	(1.5)
Loss in the scheme at the end of the year	(1.9)

**History of experience gains and losses**

	2006	2005	2004	2003	2002
	£m	£m	£m	£m	£m
<b>BAL Pension scheme</b>					
Difference between the expected and actual return on scheme assets (£m)	14.6	44.2	7.1	25.2	(73.2)
Value of plan assets (£m)	439.5	409.6	332.9	295.4	241.6
Percentage of scheme assets (%)	3.3	10.8	2.1	8.5	(30.3)
Experience gains/(losses) on scheme liabilities (£m)	52.6	0.9	(11.3)	2.2	(42.4)
Present value of scheme liabilities (£m)	662.4	747.3	531.2	492.7	438.5
Percentage of the present value of scheme liabilities (%)	7.9	0.1	(2.1)	0.4	(9.7)
Actuarial gain/(loss) in STRGL (£m)	108.4	(143.1)	(7.4)	(5.2)	(141.1)
Present value of scheme liabilities (£m)	662.4	747.3	531.2	492.7	438.5
Percentage of the present value of scheme liabilities (%)	16.4	(19.2)	(1.4)	(1.1)	(32.2)

## THOMSONFLY LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2006

#### 21 Pensions (continued)

##### FRS 17 Disclosure requirements (continued)

	2006 £m
<b>Orion Pension scheme</b>	
Difference between the expected and actual return on scheme assets (£m)	0.1
Value of plan assets (£m)	1.2
Percentage of scheme assets (%)	6.6
Experience (loss) on scheme liabilities (£m)	(1.7)
Present value of scheme liabilities (£m)	(3.1)
Percentage of the present value of scheme liabilities (%)	(55.2)
Actuarial losses in STRGL (£m)	(1.5)
Present value of scheme liabilities (£m)	(3.1)
Percentage of the present value of scheme liabilities (%)	(48.0)

All other employees are entitled to join the TUI Pension (UK) scheme (the 'TUI Scheme'). The assets of the TUI Scheme are funded through independent trustee-administered funds separate from the assets of the Group.

The particulars of the actuarial valuation of the TUI Scheme are set out in the financial statements of TUI Northern Europe Limited group accounts.

#### 22 Non-adjusting post balance sheet events

##### Merger announcement

On 19 March 2007, TUI AG & First Choice Holidays PLC announced their intention to form TUI Travel PLC, by combining the majority of the TUI AG tourism businesses (which includes TUI Northern Europe Limited and its subsidiaries) with that of First Choice Holidays PLC. The new company will be owned 51% by TUI AG and 49% by the existing shareholders of First Choice Holidays PLC. It is the intention that the newly created company will be quoted on the London Stock Exchange.

The proposal is conditional on the agreement of the shareholders of First Choice Holidays PLC. Clearance was granted by the EU Competition authorities on the 4th June 2007, under the condition that the existing group operations in Ireland, operating under the Budget Travel brand, are disposed of.

##### Change in corporation tax rate

On 21 March 2007, the Chancellor announced a decrease in the corporation tax rate from 30% to 28%, effective from April 2008. The impact is estimated to be a reduction in deferred tax assets of £4.9m, with £0.4m effective through the Profit and Loss account and £4.5m, relating to pensions, effective through the statement of total recognised gains and losses.

#### 23 Ultimate parent undertaking

Within the meaning of the Companies Act 1985, Thomson Travel Group (Holdings) Ltd is the immediate parent undertaking. TUI AG is regarded by the Directors of the company as being the company's ultimate parent company and controlling party. Within the meaning of the said Act, TUI AG is the parent undertaking of the largest group of undertakings for which the group accounts are drawn up and of which the company is a member and TUI Northern Europe Limited ("TUI NE") is the parent undertaking of the smallest group of undertakings of which the company is a member. TUI AG is incorporated under the laws of Germany. TUI Northern Europe Limited is incorporated in England and Wales.

Copies of TUI AG's accounts are available from Investor relations, TUI AG Karl-Wiechert-Allee 4, D-3605 Hanover or on the website address [www.TUI-group.com](http://www.TUI-group.com)