

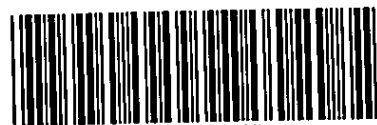
TNT European Airlines Limited

Annual report and financial statements

30 December 2006

Registered number 1628529

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Directors' report for the year ended 30 December 2006

The Directors present their report together with the audited financial statements of the Company for the 52 week period (hereafter referred to as 'year') ended 30 December 2006

Principal activities

The principal activity of the Company during the year was the chartering and leasing of the four BAe 146 QT aircraft, three of which were held under finance lease by the Company. The Company continues to seek uses for these aircraft in its core activities. The Directors do not envisage initiating any material departure from this activity in the foreseeable future.

Results and dividend

The results for the year show a pre tax profit of £1,570,000 (2005 £1,164,000) as described on page 5. The Directors recommend that no dividend be paid (2005 £Nil).

Principal risks and uncertainties

Due to the fact that the Company does not trade and has financial support from its parent, TNT Holdings (UK) Limited there are not deemed to be any risks or uncertainties, that are not mitigated by internal financing policies.

Key performance Indicators

As Company does not trade and its affairs are sufficiently simple that the Directors believe that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Financial risk management

The Company has both interest bearing assets and interest bearing liabilities. As the Company's financing and operations are internal to the TNT UK group, any financial risks are mitigated by internal policies and controls.

Directors

The Directors of the Company who served during the year ended 30 December 2006, and subsequently, were as follows:

JC Downing
GF Ginty
WV Hanley M B E (Resigned 31 December 2006)

Statement of Directors' responsibilities in respect of the Annual Report and financial statements

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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.

Directors' report for the year ended 30 December 2006 *(continued)*

Statement of Directors' responsibilities in respect of the Annual Report and financial statements *(continued)*

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

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.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosures of information to Auditors

The Directors confirm that at the time when this report was approved, the following applies

- so far as the directors are aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- the directors have taken all the steps that they ought to have 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

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to reappoint them, as auditors to the Company, will be proposed at the annual general meeting.

By order of the board


J C Downing
Director

Railway Street
Ramsbottom
Bury
Lancashire
BL8 9BF

26 July 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TNT EUROPEAN AIRLINES LIMITED

We have audited the financial statements of TNT European Airlines Limited for the year ended 30 December 2006 which comprise the Profit and Loss Account, the Balance Sheet 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 members 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 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.

Fundamental uncertainty

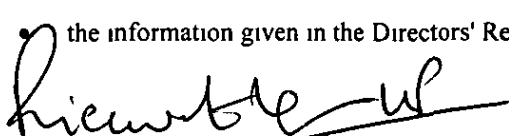
In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the contingent tax liability in respect of the tax residency of various Dutch companies in the group (note 16). These companies may have been resident in the United Kingdom for tax purposes during the 1990's and may be subject to UK tax on capital gains when their tax residency moved from the UK. Although the Directors believe that such a tax charge is unlawful as a matter of EC law, in the event of tax being imposed on, but not paid by, Dutch companies, potentially the charge could be levied on various UK companies including the Company. Details of the circumstances relating to this fundamental uncertainty are described in note 16. Our opinion is not qualified in this respect.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TNT EUROPEAN AIRLINES LIMITED *(continued)*

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 30 December 2006 and of its profit and cash flows 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
East Midlands
Date

21/7/07

Profit and loss account
for the year ended 30 December 2006

	<i>Note</i>	Year ended 30 December 2006 £000	Year ended 31 December 2005 £000
Turnover	2	3,343	3,343
Cost of sales		(1,889)	(2,223)
		<hr/>	<hr/>
Operating profit		1,454	1,120
Interest receivable and similar income	5	2,284	2,396
Interest payable and similar charges	6	(2,168)	(2,352)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		1,570	1,164
Tax credit / (charge) on profit on ordinary activities	7	1,349	(2,363)
		<hr/>	<hr/>
Profit/(loss) for the financial year	15	2,919	(1,199)
		<hr/>	<hr/>

In the current and preceding financial year the Company made no material acquisitions and had no discontinued operations

In accordance with paragraph 27 of FRS 3, a statement of total recognised gains and losses is not provided as all such items are included within the above profit and loss account


In the current and preceding financial year there was no material difference between the results reported in the profit and loss account and the results on an unmodified historical cost basis

The movement on reserves is detailed in note 15 on page 14 of these financial statements

Balance sheet
As at 30 December 2006

	<i>Note</i>	30 December 2006		31 December 2005	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		18,931		20,820
Current assets					
Debtors falling due within one year	9	28,876		59,966	
Cash at bank and in hand		1		506	
		<u>28,877</u>		<u>60,472</u>	
Creditors: amounts falling due within one year	10	<u>(16,689)</u>		<u>(50,869)</u>	
Net current assets			12,188		9,603
Total assets less current liabilities			31,119		30,423
Creditors: Amounts falling due after more than one year	11		(70)		(99)
Provisions for liabilities and charges	12		(658)		(2,852)
Net assets			30,391		27,472
Capital and reserves					
Called up share capital	13	20,000		20,000	
Profit and loss account	15	10,391		7,472	
Total shareholder's funds	14	30,391		27,472	

These financial statements on pages 5 to 14 were approved by the board of Directors on 26 July 2007 and were signed on its behalf by


J C Downing
Director

Notes to the financial statements for the year ended 30 December 2006

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with the Companies Act 1985 and in accordance with applicable Accounting Standards in the United Kingdom. Accounting policies have been consistently applied and the accounts have been prepared on a going concern basis under the historical cost accounting convention.

Turnover

Turnover represents the invoiced value of goods and services supplied during the year excluding value added tax.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Aircraft – 25 years to £498,000 per aircraft

Aircraft overhaul costs – earlier of 10 years and lifetime of aircraft

Taxation (including deferred taxation)

The charge for taxation is based on the profits for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and for accounting purposes. Full provision is made for the tax effects of these differences. Deferred tax assets are recognised to the extent that it is more likely than not that taxable profit will be available against which the asset can be utilised. This requires judgements to be made in respect of the forecast of future taxable income.

A number of changes have been proposed in the recent Chancellors Budget to the UK Corporation tax system, including a reduction in the corporation tax rate to 28% from 30%. The impact of these changes to the accounts is not considered to be material.

Assets acquired under hire purchase and lease agreements

Assets acquired under hire purchase and finance leases are capitalised with the capital element of the related rental obligations included as liabilities in the balance sheet. The interest element of the repayments is charged against profit in proportion to the reducing capital element outstanding. The assets are depreciated over their estimated useful life.

Assets held for hire under operating leases

Assets held for hire under operating leases are recorded as fixed assets. Income from operating leases is credited to the profit and loss account as incurred on an accruals basis.

Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard 1 (revised) to prepare a cash flow statement as 90 percent or more of the voting rights of the Company's shares are controlled by TNT NV. The consolidated financial statements of TNT NV, which include the Company, are publicly available.

Notes to the financial statements for the year ended 30 December 2006 (continued)

2 Segmental analysis

The Company's turnover, profit on ordinary activities before taxation and operating assets are derived from the provision of aircraft chartering and leasing services within Europe

3 Profit on ordinary activities before tax

The profit on ordinary activities before tax is stated after charging the following

	Year ended 30 December 2006 £000	Year ended 31 December 2005 £000
Depreciation of tangible fixed assets		
Owned	540	540
Leased	1,349	1,349
	<hr/>	<hr/>

Auditors' remuneration in relation to the Company has been borne by the parent undertaking and not recharged (2005 £nil)

4 Directors and employees

The Company has no employees other than Directors. During the current and preceding financial year, the Directors have neither received nor waived any remuneration for their services to the Company and have not accrued any pension benefits under either defined benefit or contribution schemes

5 Interest receivable and similar income

	Year ended 30 December 2006 £000	Year ended 31 December 2005 £000
Interest receivable from group companies	2,284	2,396
	<hr/>	<hr/>

Notes to the financial statements for the year ended 30 December 2006 (continued)

6 Interest payable and similar charges

	Year ended 30 December 2006 £000	Year ended 31 December 2005 £000
Interest payable to group companies	2,168	2,094
Finance charges in respect of finance leases	-	258
	<hr/> 2,168 <hr/>	<hr/> 2,352 <hr/>

7 Tax charge on profit on ordinary activities

	Year ended 30 December 2006 £000	Year ended 31 December 2005 £000
Current tax.		
UK Corporation tax on profits of the period	686	274
Adjustment in respect of previous periods	159	1
	<hr/> 845 <hr/>	<hr/> 275 <hr/>
Deferred tax		
Origination and reversal of temporary differences (note 12)	(2,194)	2,088
	<hr/> (1,349) <hr/>	<hr/> 2,363 <hr/>
Total taxation	<hr/> (1,349) <hr/>	<hr/> 2,363 <hr/>

The 2006 prior period adjustment relates mainly to non deductible expenses and transfer pricing adjustments
The deferred tax movement is the reversal of deferred tax balances reclassified as permanent differences

Notes to the financial statements for the year ended 30 December 2006 *(continued)*

7 Tax on profit on ordinary activities *(continued)*

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

	Year ended 30 December 2006 £000	Year ended 31 December 2005 £000
Profit on ordinary activities before tax	1,570	1,164
Profit on ordinary activities before tax at 30% (2005 30%) <i>Effects of</i>	471	349
Expenses not deductible for tax purposes	153	38
Adjustment to tax charge in respect of previous periods	159	1
Capital allowances for the period in excess of depreciation	62	44
Other timing differences	-	(157)
Current tax charge for the period	845	275

A deferred tax asset has not been recognised in respect of net capital losses carried forward of £19,000 (2005 £19,000), on the basis that the capital losses are not expected to be utilised in the foreseeable future.

Factors that may affect future tax charges

The Finance Act 2007 has reduced the corporation tax rate from 30% to 28% with effect from 1 April 2008

Notes to the financial statements for the year ended 30 December 2006 (continued)

8 Fixed tangible assets

	Plant and Machinery Aircraft £000
<i>Cost</i>	
At the beginning of the period	49,187
	<hr/>
At the end of the period	49,187
	<hr/>
<i>Depreciation</i>	
At the beginning of the period	28,367
Charge for the period	1,889
	<hr/>
At the end of the period	30,256
	<hr/>
<i>Net book value</i>	
At 30 December 2006	18,931
	<hr/>
At 31 December 2005	20,820
	<hr/>

The cost and accumulated depreciation relating to assets which are held for hire to a group Company under operating leases are £49,187,000 (2005 £49,187,000) and £30,256,000 (2005 £28,367,000) respectively

The net book value at 30 December 2006 includes £14,280,000 (2005 £15,629,000) in respect of assets subject to hire purchase and finance lease agreements. Depreciation thereon for the period was £1,349,000 (2005 £1,349,000)

Notes to the financial statements for the year ended 30 December 2006 *(continued)*

9 Debtors

	30 December 2006 £000	31 December 2005 £000
Amounts owed by group companies falling due within one year	28,876	59,966

Amounts owed by group companies are unsecured and repayable on demand. Loan interest is charged at 6 month Libor plus 0.225%.

10 Creditors: amounts falling due within one year

	30 December 2006 £000	31 December 2005 £000
Amounts owed to group companies	15,569	50,594
Corporation tax	1,119	274
Accruals and deferred income	1	1
	<u>16,689</u>	<u>50,869</u>

Amounts owed to group companies are unsecured and repayable on demand. Loan interest is charged at 6 month Libor plus 0.225%. Current account interest is charged at 12 month Libor plus 0.75%.

The company has a policy of transferring the liability for tax losses surrendered by way of group relief through the inter-company account at the appropriate tax rate. This transfer is done after the tax return filing date when the group tax position is more certain. Any subsequent adjustments are made as required.

11 Creditors: amounts falling due after more than one year

	30 December 2006 £000	31 December 2005 £000
Amounts owed to group undertakings	70	99
Analysis		
Repayable between one and two years	31	29
Repayable between two and five years	39	70
	<u>70</u>	<u>99</u>

Notes to the financial statements for the year ended 30 December 2006 (continued)

12 Provisions for liabilities and charges

Provision for deferred tax at 30% is as follows

	30 December 2006 £000
At the beginning of the year	2,852
Charge to profit and loss (note 7)	(2,194)
	<hr/>
At the end of the year	658 <hr/>

The deferred tax consists of:

	30 December 2006 £000	31 December 2005 £000
Accelerated capital allowances	(658)	(720)
Others	-	(2,132)
	<hr/>	<hr/>
	(658) <hr/>	(2,852) <hr/>

Unrecognised deferred tax assets

A deferred tax asset of £19,000 (2005 £19,000) has not been recognised in respect of temporary differences on the basis that the capital losses are not expected to be utilised in the foreseeable future

13 Called up share capital

	30 December 2006 £000	31 December 2005 £000
<i>Authorised, allotted, called up and fully paid.</i>		
20,000,000 Ordinary shares of £1 each	20,000	20,000
	<hr/>	<hr/>

14 Reconciliation of movements in total shareholder's funds

	30 December 2006 £000	31 December 2005 £000
Profit/(Loss) for the year	2,919	(1,199)
Opening total shareholder's funds	27,472	28,671
	<hr/>	<hr/>
Closing total shareholder's funds	30,391 <hr/>	27,472 <hr/>

Notes to the financial statements for the year ended 30 December 2006 (continued)

15 Profit and loss account

	30 December
	2006
	£000
At the beginning of the year	7,472
Profit for the year	2,919
	<hr/>
At the end of the year	10,391
	<hr/>

16 Contingent liabilities

The Company has a contingent liability in respect of the tax residency of various Dutch companies in the group. As part of their enquiry under Code of Practice 9 (Hansard), HM Revenue and Customs are currently considering whether or not these Dutch companies may have been resident in the United Kingdom for tax purposes for a period of time during the 1990s, prior to the acquisition of TNT by TPG NV (now TNT NV). If this was the case, then these Dutch companies may be subject to UK corporation tax arising, inter alia, on capital gains when their tax residency later moved from the UK. However, even if these companies were to be deemed to have been UK tax resident the Directors believe that, based on strong external specialist advice, the UK's exit charge system is unlawful as a matter of European Community law and thus that it would not be possible to impose a tax on the Dutch companies upon any migration from the UK.

Although any tax charge would be imposed on the Dutch companies concerned, in the event that the Dutch companies do not pay the tax due, potentially HM Revenue and Customs has the right to seek to recover the unpaid tax from various UK companies. The Company is one of a number of TNT companies in this position.

Although the Directors believe that it is unlikely that the Company will incur a liability, the estimated realistic range to reflect the settlement of the contingent liability in this regard is between £25 million and £85 million. This estimate represents 4-15% of the estimated maximum liability in the highly unlikely event that assessments raised on the Dutch companies are held to be lawful as a matter of domestic and EC law by all the relevant courts, the Company is unable to reach any settlement with HM Revenue and Customs, and the UK corporation tax is not recovered from the Dutch companies.

17 Related party disclosures

The Company is controlled by TNT Holdings (UK) Limited, its immediate parent undertaking.

The Company being a subsidiary undertaking with 90 percent or more of the voting rights being controlled within the TNT NV group is exempt from the requirement under the terms of FRS 8 to disclose transactions with entities that are part of this group or investees of this group qualifying as related parties.

18 Ultimate parent undertaking

The ultimate parent undertaking and controlling party of TNT European Airlines Limited is TNT NV, a Company incorporated in the Netherlands. Copies of the consolidated financial statements of TNT NV that include TNT European Airlines Limited may be obtained from TNT Investor Relations, PO Box 13000, 1100 KG Amsterdam, The Netherlands.