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MyTravel Group plc
Annual Report & Accounts 2006

Contents

Overview

£43.8m
Profit before tax

Despite difficult market conditions, the Group has returned to profitability at the profit before tax level, delivering an improvement of over £60m. Profit before tax was £43.8m compared with a loss in the prior year of £17.4m.

20%
Group profit from operations*

Group profit from operations* increased by 20% to £61.7m compared with £51.3m in the prior year.

53%
UK reduced loss from operations*

The loss from operations* in the UK was reduced by 53% to £12.9m, from £27.4m in the prior year.

8.1%
Northern Europe operating margin

Northern Europe delivered another record performance with profit from operations* increased to £64.1m from £60.7m in the prior year, achieving an operating margin of 8.1%.

£10.4m
North America profit from operations*

The profit from operations* in North America was £10.4m compared with £16.9m in the prior year.

£66.8m
Reduced S,G&A costs

Group S,G&A costs for ongoing businesses† were reduced by £66.8m. The UK reduction of £54.4m was significantly higher than the £30-40m we had previously targeted.

Current trading – Winter 06/07 (as at 10 December 2006)

- Trading conditions for the winter season in the UK remain challenging. Consequently, we have reduced capacity by 10%, against which cumulative bookings are down 9%, and bookings in the last eight weeks were down only 6%. We have sold 55% of our capacity as at 10 December 2006, which is ahead of last year. The average selling price is up 4%.
- In Northern Europe, the market is encouraging, with winter 06/07 cumulative bookings down 5% against 8% less capacity, and bookings in the last eight weeks were down only 1%. We have sold 67% of our capacity as at 10 December 2006, which is ahead of last year. The average selling price is up 11%.
- The market remains competitive in North America, with winter 06/07 bookings down 2% against 2% more capacity. We have sold 50% of our capacity as at 10 December 2006, which is behind last year. The average selling price is up 2%.

Current trading – Summer 07 (as at 10 December 2006)

- In Northern Europe, summer programmes have only recently been launched, and the North American programmes are yet to be launched.
- Summer trading in the UK started slowly, with cumulative bookings down 11% on an expected capacity reduction of 5%. In the last eight weeks, however, bookings were in line with the prior year. We have sold 23% of our capacity as at 10 December 2006, which is similar to last year. The average selling price is flat. Overall, it is still very early to predict the summer.

Outlook

- The Group continues to make good progress in improving the quality of its product offering, the differentiation of these products, the move to the internet, the employment of CRM tools and cost cutting. We continue to target an operating margin of 3.5% in the UK, but only a significant improvement in market conditions will allow us to achieve this target in 2007.

*Profit from operations is stated before exceptional items and, in the case of the Group figures, includes share of results of associates and joint ventures. The profit before tax for the year ended 31 October 2006 after net exceptional costs of £16.2m and net finance charges of £1.7m was £43.8m. Net exceptional items are defined in notes 4 and 5 to the Financial Statements.
†S,G&A costs from ongoing businesses are defined as Selling & Marketing, General and Administration costs before exceptional items and the impact of disposed/exited businesses.

MyTravel Group plc is a major player in the world's most active markets for package holidays and other leisure travel products.

Our principal operations are in the UK, Northern Europe and North America where we operate both Risk and Non-Risk tour operations. The holidays provided by these tour operators are sold through a number of distribution channels – in-house shops, third party retailers, the internet and call centres. In addition, we have a fleet of aircraft which are deployed across our markets to obtain optimum flexibility and control. In 2005/06 we helped over 6.2 million customers to take a holiday and employed an average of 12,947 staff worldwide.

SECTION 01

SECTION 02

SECTION 03

SECTION 04

SECTION 05

SECTION 06

SECTION 07

Chairman's Statement

Michael Beckett
Chairman

Last year, your Company reported a loss before tax of £17.4m (restated to comply with IFRS). This year, I am pleased that we made a profit before tax of £43.8m.

This was our first pre-tax profit since 2001, and showed an improvement of more than £60m over the previous year. This is the third year in succession that we have achieved a significant improvement in results. Our return to profitability is a significant milestone for MyTravel and may be seen as the culmination of a long process of financial restructuring and operational turnaround which began with the appointment of Peter McHugh as Chief Executive towards the end of 2002. However, while we are proud of what has been accomplished to date, we consider that the Group has some way to go before we can say that the turnaround is complete. We have now set ourselves new objectives.

Results

I am particularly pleased with the achievement of a 20% improvement in operating profit, to £61.7m (2005: £51.3m) in such a difficult year for the travel industry and I return to this theme below. Management calculates that the costs of fuel and foreign currency increased year on year by £25.8m and £22.5m respectively. We also faced fees of £8.4m payable on our bonding and letters of credit facilities for the remainder of the year following the "normalisation event" in January 2006. However, our actions to reduce selling and marketing, general and administration costs were successful, and we reduced these costs by £54.4m in the UK and a total of £66.8m for the Group.

In the UK, we improved the loss from operations by 53% to £12.9m (2005: £27.4m). In Northern Europe, we achieved another record performance, with profit from operations of £64.1m (2005: £60.7m). Our operating margin in Northern Europe was an industry leading 8.1%. In North America, the profit from operations was £10.4m, compared with £16.9m in the prior year.

The basic earnings per share for the year was 5.67p. The diluted earnings per share was 5.63p (2005: basic and diluted loss per share 10.89p). Before exceptional items, basic earnings per share was 9.19p (2005: 6.08p) and diluted earnings per share 9.13p (2005: 6.05p).

Dividend policy

In my last statement, I wrote that due to the lack of distributable reserves, the Board was unable to pay a dividend. Since then, we have taken the necessary measures to facilitate the resumption of dividend payments. At an Extraordinary General Meeting on 26 May 2006, a special resolution was passed by the Company's shareholders to reduce the Company's share capital by way of a reduction in the share premium account. On 28 June 2006, this reduction of capital was confirmed by an order of the High Court. The Company is now in a position to pay dividends out of distributable profits earned from that date onwards. If the Board's expectations for 2007 are achieved, the Board would expect to be in a position in December 2007 to propose the resumption of regular payments.

The market

In common with other tour operators, 2006 turned out to be a difficult year in all our markets, which were affected to a greater or lesser extent by three factors: the World Cup, record high summer temperatures and a series of terrorist incidents and alerts. In the UK, market conditions for summer were already difficult as a result of the World Cup and unusually warm weather. As a result, sales volumes through to the end of July were down 3% on 1.4% less capacity, and average selling prices were up 2%. At the beginning of August we had approximately 300,000 holidays left to sell. Following the UK security alert in August, there was a significant fall in demand for the remainder of the summer and prices had to be heavily discounted to stimulate sales. This resulted in average selling prices achieved in August, September and October for travel in those months being 10% below the prior year. Northern Europe also had a difficult summer, affected by the World Cup, very warm weather and terrorist incidents in Turkey. In addition, North America was affected by the UK security alert, particularly on our transatlantic programme.

However, your Board does not believe that 2006 represents the shape of things to come for the package holiday business. All the evidence suggests that summer 2006 was an exceptional season, caused by an unusual combination of factors timed to disrupt the normal patterns of demand. We estimate that despite the poor summer, the number of package holidays sold in the UK in 2006 was 19m, broadly unchanged since 1999, whereas the total number of holidays taken abroad has risen from some 35m to 46.4m. The growth has been in independent travel, but there is no question that millions of consumers in Northern Europe and North America as well as the UK, find the value, service and security of a package holiday the most attractive holiday product. Serving this market will continue to be our core business.

Strategy

This month we have announced the results of a strategic review which has been in progress for much of 2006.

We initiated this review to plan for the next three years, 2007-2009. The restructuring plan put in place in 2004 focused on returning the UK business to profitability at industry standard margins. The most significant changes in our business environment since 2004 have been the higher cost of fuel and the increased volatility of foreign exchange, in particular the US dollar. However, the number of package holidays taken in the UK has not varied materially from our original estimates.

In the review we made a number of assumptions. We assumed stability in the economies of our home markets and a mature package holiday market, with demand in the UK remaining at 18-20m customers. We assumed that while natural and man-made disasters would continue to occur, no one incident will cause a sustained disruption to the holiday market. We assumed that the regulatory environment will not change unpredictably. Finally, we assumed that the overall holiday market will continue to evolve – it will be no less rational, access to aircraft and accommodation will not change materially, and some consolidation is inevitable.

The Group's overall goal is to become a leading leisure travel business, delivering shareholder value. Our success will be measured not by the Group's size, but by our profitability, the quality of our operations and products, and our relations with our people, our customers and our shareholders. Our targets are to achieve industry standard margins in the medium term and industry leading margins in the longer term.

In order to achieve growth we will continue to work to improve the performance of our core businesses in the UK, Northern Europe and North America. We also see opportunities for growth through acquisition and consolidation, which we will judge by their ability to strengthen and differentiate our product offering, the available synergies and financial measures. We will develop consolidation opportunities, principally, but not solely, in the UK, which offer cost reduction potential and, ideally, allow us to expand our brand reach. The possible acquisition of First Choice's Mainstream business and certain related operations, which we announced on 27 November 2006, is one of a number of opportunities we are evaluating. While we believe that consolidation is both desirable and inevitable, it is not dependent on a successful outcome to any one of these opportunities. We will expand our participation in leisure growth markets, such as cruise distribution, independent travel and Non-Risk specialty packages. We will expand our current offerings into adjacent geographies, leveraging the capabilities of our management teams in Northern Europe and North America. In the UK, we will look to enter the domestic leisure market and cruise operations.

We have also adopted seven specific strategies to manage the business. We will anticipate and respond quickly to evolving consumer attitudes and demands. We will differentiate our products by focusing on customer relevance, quality and value. We will target profitability rather than market share by balancing the supply of holidays offered against demand. We will facilitate and support the move to the internet, while balancing and improving the effectiveness of the traditional distribution channels. We will maintain a rigorous approach to reducing costs while investing in, and developing, improved processes. We will continue the process of developing and improving the quality, motivation and effectiveness of our people. We will maintain a balanced financial strategy by focusing on cash management, hedging, prudent borrowing and adherence to best practice financial and accounting policies.

Finally, we will conduct our business in an ethical and responsible manner, contribute to the communities in which we operate and respect the needs of customers, shareholders, staff, suppliers and the environment. This Annual Report includes an expanded review of the ways we are meeting our social and environmental responsibilities.

Outlook

The Group continues to make good progress in improving the quality of its product offering, the differentiation of these products, the move to the internet, the employment of customer relationship management tools and cost cutting. We continue to target an operating margin of 3.5% in the UK, but only a significant improvement in market conditions will allow us to achieve this target in 2007. In December 2006, the UK government doubled Air Passenger Duty at short notice. Tour operators are uniquely prevented by law from collecting this tax from customers who have already booked, resulting in a significant unexpected additional cost to MyTravel in 2007. We consider it unacceptable that the government should impose this new penalty, whose only justification is the need to raise funds, on an industry which is heavily regulated, without even giving the industry time to collect it from customers.

Once again, on behalf of the Board and the shareholders, I would like to congratulate Peter McHugh and his management team on their leadership of the Group. Again on their behalf, I would like to thank all the employees of MyTravel for their excellent contribution to the progress we have made to date, and the progress we will make in the coming year.

In conclusion, we have a clear strategy, a strong management team and each year we are delivering an improvement in performance.

Michael Beckett
Chairman
14 December 2006

The Operating Review

Peter McHugh
Chief Executive

Group results

Geographic analysis of revenue (external only)

	12 months to 31 October 2006 £m	12 months to 31 October 2005 £m
UK	1,540.9	1,723.1
Northern Europe	787.5	789.1
North America	468.1	397.9
Group	**2,796.5**	**2,910.1**

Geographic analysis of profit from operations*

	12 months to 31 October 2006 £m	12 months to 31 October 2005 £m
UK	(12.9)	(27.4)
Northern Europe	64.1	60.7
North America	10.4	16.9
Group	**61.6**	**50.2**
Share of results of associates and joint ventures	0.1	1.1
Group and share of results of associates and joint ventures	**61.7**	**51.3**

*Profit from operations is stated before exceptional items and, in the case of the Group figures, includes share of results of associates and joint ventures. The profit before tax for the year ended 31 October 2006 after net exceptional costs of £16.2m and net finance charges of £1.7m was £43.8m. Net exceptional items are defined in notes 4 and 5 to the Financial Statements.

From 1 November 2005, the Group prepares its accounts in line with International Financial Reporting Standards. As a result, the figures and terminology used in this report have been presented to now reflect the adoption of IFRS and ensure comparability across the two years.

Profit before tax for the Group for the year ended 31 October 2006 was £43.8m compared with a loss in 2005 of £17.4m. This return to profitability comes despite a difficult summer of trading, particularly in the UK, which was compounded by the UK travel security alert in August and the terrorist incidents in Turkey and Jordan. It also comes despite year on year increases in the prices of fuel and foreign currency, which management calculates increased the costs for the Group by £48.3m, and the fees of £8.4m which were payable on the Bonding and Letters of Credit facilities in the year following the "normalisation event" in January 2006.

As can be seen from the table opposite, the Group's winter losses from operations were reduced year on year by £21.3m. However, as a result of the difficult trading conditions in summer in all our markets, the full year operating result improvement was reduced to £10.4m.

"MyTravel's return to profitability marks a significant milestone in the turnaround of the Group. We are particularly pleased with the 20% improvement in operating profits in what has clearly been a difficult year for the travel industry."

Seasonal analysis of profit from operations*

	Year on year change Winter 05/06 vs 04/05 £m	Year on year change Summer 06 vs 05 £m	Year on year change Full year 05/06 vs 04/05 £m
UK	22.7	(8.2)	14.5
Northern Europe	6.6	(3.2)	3.4
North America	(8.4)	1.9	(6.5)
Group	**20.9**	**(9.5)**	**11.4**
Share of results of associates and joint ventures	0.4	(1.4)	(1.0)
Group and share of results of associates and joint ventures	**21.3**	**(10.9)**	**10.4**

*Profit from operations is stated before exceptional items and, in the case of the Group figures, includes share of results of associates and joint ventures. The profit before tax for the year ended 31 October 2006 after net exceptional costs of £16.2m and net finance charges of £1.7m was £43.8m. Net exceptional items are defined in notes 4 and 5 to the Financial Statements.

In the UK, despite substantial and continued progress in turning around the business, the effect of events in the summer, together with the increased prices for fuel and foreign currency, which management calculates increased the costs in the UK by £31.8m year on year, was such that we were unable to return the business to profitability this year.

Market conditions in the UK for summer 06 were already difficult as a result of the World Cup and the record high temperatures in the UK. As a result, sales volumes through to the end of July were down 3% on 1.4% less capacity, and average selling prices were up 2%. At the beginning of August we had approximately 300,000 holidays left to sell. Following the UK security alert in August, there was a significant fall in demand for the remainder of the summer and as such prices had to be heavily discounted to stimulate sales. This resulted in average selling prices achieved in August, September and October for travel in those months being 10% below the prior year.

In response to the trading issues, we accelerated our cost reduction programme. As a result, we achieved year on year savings in S,G&A costs in the UK of £54.4m, significantly higher than the £30-40m we had previously targeted. The savings achieved ensured that the loss from operations was reduced to £12.9m compared with a loss of £27.4m last year.

In Northern Europe, we have again reported record results for the year, with profit from operations increased to £64.1m compared with £60.7m in the prior year. This improved result comes despite the difficult summer and the year on year increases in fuel and foreign currency prices, which management calculates increased the costs by £15.3m. The sustained improvement in results in Northern Europe is a major success of the restructuring of the business and again demonstrates what can be achieved when supply and demand are in balance, quality products are offered and costs are carefully controlled.

In North America, the peak trading season is the winter. Our operations in that period were affected by increased competitive pressure, exacerbated by the effects of Hurricane Wilma which cost North America £3.6m. In the summer, while our results benefited from the return to service of a B767, which was grounded for much of summer 05, this benefit was offset by the impact of the UK security alert, particularly on our trans-Atlantic programme. As a result, the profit from operations for the year was £10.4m compared with £16.9m last year. Management calculates that movements in prices for fuel and foreign currency increased costs by £1.2m. However, S,G&A costs in local currency were reduced by 10%.

Business segmentation

Business segment analysis of revenue (external only)

		12 months to 31 October 2006 £m	12 months to 31 October 2005 £m
Risk	Mass Market	1,701.6	1,820.1
	Focused	721.0	698.3
Total Risk		**2,422.6**	**2,518.4**
Non-Risk		373.9	391.7
Group		**2,796.5**	**2,910.1**

Business segment analysis of profit from operations*

		12 months to 31 October 2006 £m	12 months to 31 October 2005 £m
Risk	Mass Market	61.6	39.0
	Focused	(9.3)	6.0
Total Risk		**52.3**	**45.0**
Non-Risk		13.3	13.5
Central costs		(4.0)	(8.3)
Group		**61.6**	**50.2**
Share of results of associates and joint ventures		0.1	1.1
Group and share of results of associates and joint ventures		**61.7**	**51.3**

*Profit from operations is stated before exceptional items and, in the case of the Group figures, includes share of results of associates and joint ventures. The profit before tax for the year ended 31 October 2006 after net exceptional costs of £16.2m and net finance charges of £1.7m was £43.8m. Net exceptional items are defined in notes 4 and 5 to the Financial Statements.

Operational activity

Since 1 November 2005, we have:

- Completed the strategic review and set planning parameters for each business through the medium term.
- Consolidated the UK charter tour operators, Airtours, Direct Holidays and Panorama and Manos, into a single organisation based in Rochdale, while continuing to promote the individual tour brands.
- Continued to consolidate the UK call centre operations, further reducing the number of locations from six to three.
- Continued our drive to increase the proportion of sales currently made online, which has now reached 35% in Northern Europe, 26% in the UK and 12% in North America.
  - Reduced the number of Going Places shops by a further 62 since November 2005 to 456, while offering all affected employees jobs in other shops.
  - In the UK, we launched a home working arm for retail and direct sales, which will have expanded to 120 people for January 2007.
  - Following the launch of fully bookable websites in early 2006, online sales in Bridge, Cresta and Tradewinds reached 37% in the last four weeks (to 10 December 2006), compared with 18% in June 2006 and 4% at the end of 2005.
  - Reduced the number of shops in Sweden by a further 16 to 9, in addition to two shops closed in Norway in the first half of the year.
  - Reduced the number of owned shops in Canada by 13 to 29.

- Implemented our enhanced customer relationship management strategy in all divisions to improve marketing effectiveness, increase sales conversion, increase ancillary sales and improve customer loyalty. In the UK, we recently launched e-ticketing, provided sales staff with access to historic customer data and launched personalised electronic communications to customers to sell ancillary products after booking. In Northern Europe, more than 50% of all tickets sold are now e-tickets, and 10% of customers who receive electronic communications after booking currently buy ancillary products.
- MyTravel Airways UK was the best performing charter airline for winter 05/06, with 80.6% of flights on time, and summer 06 (April-September), with 83.0% of flights on time.
- Continued the development of products and destinations in all divisions, in order to differentiate our product from the competition:
  - In the UK, we launched new propositions targeting specific market segments for summer 07 – Suncentres, Family First, Beach Resorts and Local Flavours. Airtours became the first UK tour operator to offer package holidays to China from summer 07.
  - In May 2006, MyTravel Northern Europe ran a highly successful round the world tour to mark the 50th anniversary of the Ving and Spies brands. For 2007, we are repeating this tour in Northern Europe, and we have launched the UK's only round the world package holiday.
  - In Northern Europe, we introduced a new strategy of focusing on our strongest brands to get the best value for our marketing investment. In Sweden, for example, we closed the Always charter brand in order to concentrate on Ving, our market leading brand. We also contracted to franchise Sunwing hotels into a number of new destinations.
  - In North America, we have added three new destinations in the Caribbean for winter 06/07; added three new departure airports in Canada; and launched a new "family" proposition with its own brochure. We have also added a number of new destinations to our independent travel product range, notably in Eastern Europe, for summer 07.
- Acquired Encore Cruises, becoming the largest wholesale cruise distributor in Canada.

Strategic review

During the spring and summer of 2006, the Group conducted a detailed strategic review to plan for the medium term future, 2007-2009. It is worth noting that the restructuring plan put in place in 2004 focused on returning the UK business to profitability at industry standard margins. The environment has changed most significantly since 2004 with regard to the cost of fuel and the volatility of foreign exchange, in particular the US dollar. The number of package holidays taken in the UK has not varied materially from our original estimates.

The strategic review assumes:

- The economies of our home markets will remain stable. Total demand for foreign leisure travel will continue to grow faster than the economy. Independent travel will account for all of this growth.
- A mature package holiday market with demand in the UK between 18-20m customers through the planning horizon.
- Natural and man-made disasters will continue to occur. However, no one incident will cause a sustained disruption to the holiday market.
- The regulatory environment will not change in ways that we cannot now predict.
- The overall holiday market will continue to evolve. It will remain no less rational than in the last few years, access to aircraft and accommodation will not materially change and some consolidation is inevitable.

Goal

The Group's overall goal is to become a leading leisure travel business, delivering shareholder value. Our success will be measured not by the Group's size, but by our profitability, the quality of our operations and products, and our relations with our people, our customers and our shareholders.

Growth

The Group will continue to work to improve the performance of its core businesses in the UK, Northern Europe and North America. We also see opportunities for growth during this planning horizon through acquisition and consolidation. These opportunities will be judged by their ability to strengthen and differentiate our product offering, the available synergies and overall financial measures. The geographic focus will be the home markets in which we operate. Having restructured the existing UK business, emphasis will be placed on positioning the UK for the future. In this context we will focus on the following:

- Develop consolidation opportunities, principally, but not solely, in the UK, which offer cost reduction potential and, ideally, allow us to expand our brand reach within core demographics.
- Expand our participation in leisure growth markets, e.g. cruise distribution, independent travel and non-risk specialty packages.
- Expand current offerings into adjacent geographies leveraging management capabilities.
- In the UK, look to enter the domestic leisure market and cruise operations.
- Remain open to other opportunities as they present themselves.

Our underlying strategies in managing the business are:

- *Customer focus* – Anticipate and respond quickly to evolving consumer attitudes and demands.
- *Product and branding* – Differentiate our products by focusing on customer relevance, quality and value.
- *Capacity* – Target profitability rather than market share by balancing the supply of holidays offered against demand.
- *Distribution* – Facilitate and support the move to the internet, while balancing and improving the effectiveness of the traditional distribution channels.
- *Productivity* – Maintain a rigorous approach to reducing costs while investing in, and developing, improved processes.
- *People* – Continue the process of developing and improving the quality, motivation and effectiveness of our people.
- *Financial* – Maintain a balanced financial strategy by focusing on cash management, hedging, prudent borrowing and adherence to best practice financial and accounting policies.

Social and environmental responsibility

We will conduct our business in an ethical and responsible manner, contribute to the communities in which we operate and respect the needs of customers, shareholders, staff, suppliers and the environment.

Financial objectives

Our targets are to achieve industry standard margins in the medium term and industry leading margins in the longer term.

Dividends

At an Extraordinary General Meeting on 26 May 2006, a special resolution was passed by the Company's shareholders to reduce the Company's share capital by way of a reduction in the share premium account and, on 28 June 2006, this reduction of capital was confirmed by an order of the High Court. The Company is now in a position to pay dividends out of distributable profits earned from that date onwards.

If the Board's expectations for 2007 are achieved, the Board would expect to be in a position in December 2007 to propose the resumption of regular dividend payments.

Current trading

Winter 06/07 (as at 10 December 2006)

In the UK, trading conditions remain challenging and we continue to see a trend to later booking. Consequently, we have reduced capacity by 10%. Cumulative bookings against this reduced capacity are, however, 9% behind the prior year and, in the last eight weeks, were only 6% down year on year. As a result, we now have significantly fewer holidays left to sell than at the same time in the prior year. Average selling prices are 4% up year on year. This year, we have introduced new long haul packages to Brazil and Kenya, as well as a round the world trip. All of these programmes are performing well.

In Northern Europe, the booking season started slowly but has improved in recent weeks and is encouraging. Cumulative bookings are 5% behind the prior year, and in the last eight weeks, bookings were only 1% behind. This improving trend, together with an 8% reduction in capacity year on year, means that we have significantly fewer holidays left to sell than at this time last year. Selling prices are also up 11% year on year. The improvement is partly as a result of strong demand for long haul, especially Thailand, where we opened a franchised Sunwing hotel in November 2006 that is already over 80% booked for the season.

In North America, bookings are cumulatively 2% behind year on year. Bookings in the last eight weeks were 4% behind, but this reflects the impact of a discounting campaign which was run in November and December 2005 to stimulate demand following the hurricanes in the Caribbean in October 2005. Capacity is 2% up, also reflecting a return to more normal conditions following cuts made last year as a result of the hurricanes. Average selling prices are up 2%.

Summer 07 (as at 10 December 2006)

Brochures in Northern Europe for summer 07 have recently been launched. Bookings have started well, but it is very early to assess performance.

Brochures in North America for the summer programme have not yet been launched.

In the UK, summer trading started slowly. Bookings are cumulatively down 11% against an expected capacity reduction of 5%. In the last eight weeks, bookings were in line with last year. The average selling price is flat. However, with only 23% of capacity sold, which is similar to last year, it is still too early to assess the trends, and the key post-Christmas booking period will play an important part in determining the outcome for the season.

Fuel and foreign currency

As at 10 December 2006, the Group has 90% of its foreign currency requirement and 90% of its fuel requirement for winter 06/07 hedged. For summer 2007, the Group has 85% of its foreign currency and 84% of its fuel requirement hedged. While fuel prices will show an increase, taken together, the cost of the fuel and foreign currency we have hedged will be broadly unchanged year on year. Management now believes the hedging policy in place in the Group is appropriate.

Outlook

The Group continues to make good progress in improving the quality of its product offering, the differentiation of these products, the move to the internet, the employment of CRM tools and cost cutting. We continue to target an operating margin of 3.5% in the UK, but only a significant improvement in market conditions will allow us to achieve this target in 2007.

Peter McHugh
Chief Executive
14 December 2006

The Financial Review

John Allkins
Finance Director

% change FY05/06 vs FY04/05	%
Capacity†	(1)
Brochure sales mix††	(2)
Average selling price†*	2

	FY05/06 %	FY04/05 %
Load factor†	97.4	97.7
Operating margin %‡	2.2	1.7

†Based on charter businesses only and excludes disposed/exited businesses.
††Calculated as brochure sales divided by total passengers and expressed as a movement in % points.
*Translated at constant exchange rates.
‡Based on Group reported figures excluding share of results of associates and joint ventures. Profit/(loss) from operations is stated before exceptional items and net finance charges.

Results from operations before exceptional items

Revenue for the year to 31 October 2006 was £2,796.5m (2005: £2,910.1m). In the UK, revenue decreased by £182.2m. This was partly offset by increased revenue in North America of £70.2m which was largely a result of movements in exchange rates on translation.

Profit from operations before exceptional items, including our share of results of associates and joint ventures, was £61.7m (2005: £51.3m). The UK and Northern Europe improved their results by £14.5m and £3.4m respectively. These improvements were partly offset by reduced profitability in North America of £6.5m and a reduction in our share of results of associates and joint ventures of £1.0m.

More details of the movements in revenue and results from operations are given in the segmental review on pages 14 to 16.

The improvement in Group results came despite further year on year increases in the costs of fuel and foreign currency which management calculates adversely affected the year on year results by £25.8m and £22.5m respectively; and the fees of £8.4m which were payable on the Bonding and Letters of Credit facilities in the remainder of the year following the "normalisation event" in January 2006.

Fuel and foreign exchange rate volatility have a material impact on the Group's variable cost base. In order to manage this volatility, the Group commenced, in November 2005, a hedging policy of regular buying of our fuel and foreign currency trading requirements over a 12-18 month period. Consequently, winter 06/07 will be the first season when the policy is fully operational.

The buying of our fuel and foreign currency trading requirements for 05/06 was carried out over a much shorter period due to the restructuring process. For winter 04/05, the average price achieved for benchmark fuel (NWE CIF) was $480 per metric tonne. This increased to $585 per metric tonne in winter 05/06. Similarly, the price achieved in summer 05 was $576 compared with $649 per metric tonne for summer 06.

Under the terms of the Group's Bonding and Letters of Credit facilities (which were described in the Group's Listing Particulars dated 30 December 2004), a "normalisation event" occurred when MyTravel's market capitalisation was £943m or more for 30 consecutive days. As announced on 1 February 2006, this event occurred in January 2006 and, as a result, with effect from 7 February 2006, the Group became liable to pay fees for Bonding and Letters of Credit facilities at rates of 2% for drawn and 1% for undrawn amounts. The year on year impact of "normalisation" was £8.4m.

Exceptional items

Operating exceptional items

The net exceptional costs included in results from operations in the period were £28.0m (2005: £22.3m).

In the UK, we have continued the operational restructuring of our businesses, consolidating our Risk tour operations into one single location in Rochdale, closing a further 62 Going Places stores and further consolidating our Non-Risk operations. These actions have resulted in an exceptional cost in the year of £17.0m.

During the year, we also closed nine stores in Canada, resulting in an exceptional cost of £0.7m. In addition, prior to the year end, we commenced the closure of 13 stores in Sweden. These closures, which will be completed by February 2007, resulted in an exceptional cost of £1.1m.

In addition, a review of the Group's balance sheet has resulted in a non-cash exceptional goodwill impairment cost of £9.2m.

Disposal of items of property, plant and equipment

The net profit on disposal of property, plant and equipment in the year amounted to £11.8m (2005: £0.6m).

During the year, Northern Europe disposed of a freehold hotel in Majorca, and some land adjacent to a hotel in Crete. These disposals resulted in exceptional gains of £7.9m and £2.2m respectively.

In addition, in October 2006, the Group disposed of a timeshare complex in the Canary Islands. This resulted in a net exceptional gain of £1.3m.

Other net gains on disposal of property, plant and equipment in the year amounted to £0.4m.

Finance income and costs

Net finance costs in the year were £1.7m (2005: £19.0m, including £12.4m of costs incurred on the refinancing and restructuring). The decrease year on year is largely a result of the restructuring.

Profit before tax

The profit before tax for the year ended 31 October 2006 was £43.8m (2005: loss of £17.4m).

Taxation

The tax charge in the year was £17.2m (2005: £23.3m). The charge reflects taxation in certain overseas businesses which cannot be relieved against UK tax losses. UK tax losses carried forward at 31 October 2006 amounted to £802.0m (2005: £624.0m). The increase in the UK tax losses carried forward reflects the fact that tax computations for all years up to 2003 were agreed with HMRC this summer, and the 2005 submitted tax computation resulted in a higher tax loss being recognised than our estimated figure at year end 2005. The tax losses in 2006 are materially higher than the losses shown in the accounts due to favourable book/tax variances.

Profit after tax

The profit after tax for the year ended 31 October 2006 was £26.6m (2005: loss of £40.7m).

Earnings per share and dividends

The basic earnings per share for the year was 5.67p. The diluted earnings per share was 5.63p (2005: basic and diluted loss per share of 10.89p). To allow a like-for-like comparison to the prior year, basic and diluted earnings per share before exceptional items have also been calculated. These were 9.19p and 9.13p respectively (2005: basic of 6.08p; diluted of 6.05p).

No dividends were paid or proposed in the year (2005: nil).

Segmental review of results

UK

% change FY05/06 vs FY04/05	%
Capacity†	(1)
Brochure sales mix††	(1)
Average selling price†	1

	FY05/06 %	FY04/05 %
Load factor†	97.4	97.8
Mix of passengers – short haul	35	37
Mix of passengers – medium haul	53	51
Mix of passengers – long haul	12	12
Internet distribution %*	17	11
Controlled distribution %*	62	57
Operating margin %‡	(0.8)	(1.6)

†Based on charter businesses only and excludes disposed/exited businesses.
††Calculated as brochure sales divided by total passengers and expressed as a movement in % points.
*Internet and controlled distribution are calculated on sales value of order intake in the period. Controlled distribution is defined as the proportion of sales generated through our in-house retail shops, call centres and websites.
‡Loss from operations is stated before exceptional items and net finance charges.

Revenue in the UK in the year was £1,540.9m (2005: £1,723.1m). A large part of the year on year reduction is attributable to the Risk business and reflects lower external seat revenue in the airline from contracted third party flying (e.g. the Hajj) and the cessation, in October 2005, of our MyTravelLite operations; the cessation of our owned Cruise business; and lower commissions receivable in our high street shops. In addition, volumes in our Non-Risk businesses reduced year on year.

The loss from operations before exceptional items in the year was £12.9m (2005: loss of £27.4m). As a result of difficult trading conditions, particularly in the final quarter, the underlying gross margin remained broadly in line with the prior year. We were not able to recover any of the additional costs of fuel and foreign currency, which management calculates adversely impacted the results by £14.6m and £17.2m respectively, or the £6.1m of costs incurred as a result of the "normalisation". However, our continued and accelerated focus on cost control resulted in year on year savings in S,G&A costs of £54.4m.

Northern Europe

% change FY05/06 vs FY04/05	%
Capacity[†]	0.2
Brochure sales mix[††]	(5)
Average selling price[†]	3

	FY05/06 %	FY04/05 %
Load factor[†]	97.8	98.8
Internet distribution %*	29	25
Controlled distribution %*	75	74
Operating margin %[‡]	8.1	7.7

[†] Based on charter businesses only and excludes disposed/exited businesses.
[††] Calculated as brochure sales divided by total passengers and expressed as a movement in % points.
*Internet and controlled distribution are calculated on sales value of order intake in the period. Controlled distribution is defined as the proportion of sales generated through our in-house retail shops, call centres and websites.
[‡] Profit from operations is stated before exceptional items and net finance charges.

In Northern Europe, revenue was £787.5m (2005: £789.1m), as the reduction in the load factor and brochure mix was more than offset by an increase in the overall average selling prices achieved. *In addition, the prior year revenue figure* includes £6.3m of revenue from the Dutch operations, which were exited in January 2005.

The profit from operations before exceptional items in the year increased to £64.1m (2005: £60.7m). Year on year cost savings and efficiency improvements at the trading margin level were more than offset by increases in the costs of fuel and foreign currency, which management calculates adversely impacted the Northern Europe business by £7.9m and £7.4m *respectively. In addition, "normalisation" cost £2.1m* in the year. However, the continued focus on reducing S,G&A costs resulted in savings of £11.7m year on year. The exiting of the loss-making Dutch operations also contributed £1.1m to the overall year on year improvement.

North America

% change FY05/06 vs FY04/05	%
Capacity†	(3)
Brochure sales mix††	0.5
Average selling price†	4

	FY05/06 %	FY04/05 %
Load factor†	96.0	94.0
Internet distribution %*	6	5
Controlled distribution %*	17	16
Operating margin %‡	2.2	4.2

†Based on charter businesses only and excludes disposed/exited businesses.
††Calculated as brochure sales divided by total passengers and expressed as a movement in % points.
*Internet and controlled distribution are calculated on sales value of order intake in the period. Controlled distribution is defined as the proportion of sales generated through our in-house retail shops, call centres and websites.
‡*Profit from operations is stated before exceptional items and net finance charges.*

Revenue in the year to 31 October 2006 in North America was £468.1m (2005: £397.9m). Excluding the impact of sterling translation, revenue increased by 8%. This increase reflects improved selling prices and load factors in the Canadian businesses, partly offset by the impact of Hurricane Wilma.

The profit from operations before exceptional items for the year was £10.4m (2005: £16.9m). The winter season is the peak season for Canadian tour operating and as a result of the difficult trading environment and the impact of Hurricane Wilma, the underlying profitability in the winter season was significantly reduced year on year. Management estimates that Hurricane Wilma accounted for £3.6m of the reduction in winter profitability. In the summer season, while our results benefited from the return to service of a B767, which was grounded for much of summer 05, this benefit was offset by the impact of the UK security alert, principally on our trans-Atlantic programme.

In addition, management calculates that year on year increased prices for fuel adversely impacted the North American business by £3.3m. "Normalisation" also cost £0.2m. Management calculates that changes in prices for foreign currency benefited the segment by £2.1m. However, this benefit was offset by the sterling translation impact of reported results year on year.

Our continued focus on overhead savings resulted in a reduction in full year S,G&A costs in local currency of 10% (C$9.0m).

Associates and joint ventures

Following the disposal of our interests in Hotetur and Tenerife Sol in summer 05, our interests are limited to our 19.99% share in Aqua Sol, a listed Cypriot hotel group operating in the Eastern Mediterranean. Our share of results of associates in the year ended 31 October 2006 was £0.1m (2005: loss of £0.7m). (Joint ventures contributed a profit of £1.8m in the prior year.)

Balance sheet

Net funds increased by £6.2m to £69.7m (2005: £63.5m). Net liabilities at 31 October 2006 were £199.0m (2005: net liabilities of £187.3m). The movement in the year includes the recognition, under IFRS, of net liabilities in respect of the fair value of hedging derivative instruments that relate to future seasons' trading (£41.4m), partly offset by the profit for the year attributable to equity holders (£26.0m). However, there are a number of other, largely offsetting, movements which can be seen in the Group balance sheet on page 44.

Cash balance and cash flow
Cash and cash equivalents at 31 October 2006 were £204.7m (2005: £249.0m).

The net cash outflow from operations in the year was £27.6m (2005: net cash inflow of £15.4m). This includes a £74.1m outflow on working capital offset by the profits from operations in the year. The net working capital outflow includes increased staff bonuses, including those payable as a result of the successful restructuring, which were reflected in the results of the prior year; increased payments in North America and Northern Europe to secure exclusive accommodation for future seasons, including payments in respect of the new Sunwing hotel franchises; and the impact of reductions over the past two years in capacity and volumes in the UK Risk and Non-Risk businesses, together with changes to the aircraft fleet.

The net cash inflow from investing activities was £6.4m (2005: £13.0m) and includes interest received of £10.2m. In addition, we received proceeds from the disposal of property, plant and equipment of £28.2m, of which £16.4m relates to the disposal of our hotel in Majorca. There was also a net inflow relating to the purchase of Encore Cruises in Canada of £3.6m. These inflows were partly offset by £27.5m expenditure on property, plant and equipment and intangible assets and £8.1m outflow on the acquisition of the minority interests associated with our MyTravel Aircraft Engineering company and with the hotel in Majorca.

The net cash outflow from financing activities was £20.7m (2005: £85.4m) and comprises capital repayments and interest payments on finance leases and similar borrowings, partly offset by £9.5m of cash inflow from the issue of shares in relation to the exercise of options under the management incentive plan.

Treasury policies
The Board has established treasury policies which are revised regularly to ensure they remain relevant to our business. The Board has agreed a hedging programme which operates 12 to 18 months in advance of a season.

The main financial risks faced by the Group are foreign currency, interest rate, fuel price and liquidity risk. Treasury activities are managed on a day-to-day basis by Group Treasury. The Board approves all the financial instruments used by the Group. The Group does not hold or issue derivative financial instruments for speculative purposes. Group Treasury reports regularly to members of the Board and is subject to periodic independent reviews and audits, both internal and external.

Foreign currency risk
The Group's transactional foreign currency exposures primarily relate to accommodation, flying and sundry costs for the seasons on sale. The Group's policy requires subsidiaries to hedge all trade-generated exposures with Group Treasury at the time of brochure launch. External hedging is put in place using forward contracts and other instruments as approved by the Board from time to time.

Interest rate risk
The Group is exposed to interest rate fluctuations on its aircraft related financing, where 7% of finance leases are fixed at an average rate of 6.85%. The rate payable on floating rate liabilities is based upon US LIBOR and is fixed at quarterly or six monthly intervals. Cash from operations is invested in short term bank deposits and liquidity funds.

Fuel price risk
Fuel exposures relate to flying costs for the seasons on sale. Group policy requires subsidiaries to hedge all fuel exposures with Group Treasury at the time of commitment. External hedging is put in place using fuel commodity swaps and other instruments as approved by the Board from time to time.

Liquidity risk
The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. To this end, surplus funds are collected centrally and invested with Board approved counterparties, within authorised limits and with the aim of maintaining short term liquidity while maximising yield.

John Allkins
Group Finance Director
14 December 2006

Board of Directors

Michael Beckett (70)*•‡†
Chairman

Joined the Board in March 2004 as Non-Executive Chairman. He is a former Managing Director of Consolidated Gold Fields. Non-Executive Director of Egypt Trust Limited, Northam Platinum Ltd (South Africa) and Orica Ltd (Australia). In the past five years he has been, but is no longer, Chairman of W.B.B. Minerals Ltd, Oxus Gold plc, Ashanti Goldfields Company Limited, London Clubs International plc and Clarkson plc and a Non-Executive Director of BPB plc and Foreign and Colonial General Income Growth plc. Chairman of the Management Development and Remuneration Committee and the Nominations Committee. Member of the Audit and Risk Management Committee and the Health, Safety and Environmental Committee.

Peter T McHugh (59)‡
Chief Executive

Joined the Group in April 2000 as President and Chief Executive Officer of Travel Services International, before becoming Chief Executive Officer of the Group's North American operations and joining the Board in November 2000. Appointed as Chief Executive on 17 October 2002. Previously was President and Chief Operating Officer of the Holland America Line – Westours Inc. *More than 25 years' experience in the airline industry with senior management positions* in Pan Am and TWA. Member of the Health, Safety and Environmental Committee.

John Allkins (57)
Group Finance Director

Joined the Board in December 2003 as Group Finance Director. Previously with Equant NV which he joined in 1995 as Chief Financial Officer and served as one of its three-strong Management Board until 2003. Prior to that he held a number of senior finance positions with British Telecommunications including Finance Director, British Telecom International, and Director of Financial Controls Worldwide – Networks division. Fellow of the Chartered Institute of Management Accountants.

John Bloodworth (58)
Managing Director UK

Joined the Board in November 2005 as Managing Director UK. Has more than 30 years' experience of the travel industry in the UK and USA. Joined MyTravel in 2000 as President of the Cruise Division of Travel Services International in the USA. He became Chief Executive of MyTravel USA in November 2002. He moved to the UK in 2004, initially to lead the turnaround programme, and later becoming Managing Director, UK tour operations and retail.

Sam Weihagen (56)
Chief Executive, MyTravel Northern Europe

Joined the Board in December 2004. Has a degree in business administration and accounting from Gothenburg University. Joined MyTravel Northern Europe in 1975, becoming Commercial Director with responsibility for purchasing and flight planning, and ultimately Chief Executive in 2001. Chairman of the Tour Operating Federation of Sweden.

David Allvey (61)*‡
Non-Executive Director

Joined the Board in April 2003. Formerly Group Finance Director of Barclays Bank PLC, BAT Industries plc, Allied Zurich plc and was Chief Operating Officer of Zurich Financial Services AG. Current other non-executive roles include Costain Group plc, Intertek Group plc, Resolution plc, William Hill plc and Chairman of Arena Coventry Ltd. A member of the UK Accounting Standards Board from 1993 to 2003. Chairman of the Audit and Risk Management Committee. Member of the Health, Safety and Environmental Committee.

Roger Burnell (56)*‡†
Non-Executive Director

Joined the Board in April 2003. Has substantial experience of the vertically integrated tour operating industry, having spent 25 years with Thomson Travel Group rising to Acting Chief Executive Officer in 1999. Previously Managing Director of its Horizon Holidays, Lunn Poly and Britannia Airways businesses. Currently Chairman of HomeForm Group Ltd. Member of the Management Development and Remuneration Committee and the Audit and Risk Management Committee. Chairman of the Health, Safety and Environmental Committee.

Sir Tom Farmer CBE (66)*•†
Non-Executive Director

Joined the Board in 1994. Founder of Kwik-Fit. Chairman of the Board of Trustees of the Duke of Edinburgh Award and patron of numerous charities. Member of the Audit and Risk Management Committee, the Nominations Committee and the Management Development and Remuneration Committee.

Dr Angus Porter (49)•†
Non-Executive Director

Joined the Board in 2002. Global CEO, Added Value Group. Formerly Executive Director, Customer Propositions, Abbey National plc (2003-2005) and Managing Director, Consumer Division, BT (1999-2003). Has held senior executive positions in the Mars Group, being Sales Director from 1993 to 1994, UK Marketing Director from 1995 to 1998 and European General Manager, Sugar Confectionery from 1998 to 1999. Member of the Management Development and Remuneration Committee and the Nominations Committee.

*Audit and Risk Management Committee
•Nominations Committee
‡Health, Safety and Environmental Committee
†Management Development and Remuneration Committee

Directors' Report

The Directors present their report, together with the accounts and independent auditors' report, for the year ended 31 October 2006.

Enhanced business review

Principal activities

MyTravel Group plc continues to operate within the leisure travel industry with businesses in the United Kingdom, Ireland, mainland Europe, Nordic countries, Canada and the United States of America.

Review of developments

A comprehensive review of the development and performance of the business of the Group during the financial year has been included in the Group results section of the Operating Review on pages 6 to 8 and the Financial Review on pages 12 to 16. This includes analysis of the financial and non-financial KPIs used by management in assessing the success of the business against its stated strategies and objectives.

The Financial Review on page 16 also contains information about the position of the Group at the end of the period.

Results and dividends

The profit for the year attributable to equity holders of the parent after tax and minority interests, amounted to £26.0m (year ended 31 October 2005: loss of £40.9m). The Directors do not recommend a final dividend in respect of the current financial year (2005: nil p). No interim dividend was paid (2005: nil p).

Environmental factors

The Group takes seriously its responsibility towards the environment which is one of the key areas of our corporate responsibility strategy. Details of the Group's policies and initiatives in this area are set out on pages 36 to 38 of our Corporate Responsibility Report which is included in this Annual Report.

Employee factors

The Group values highly the contribution made to its business by its employees across all areas of its operations. Details of our approach to the interests of our workforce are set out in more detail on pages 38 and 39 of our Corporate Responsibility Report.

Marketplace

Regulatory compliance is treated as a minimum standard and the Board and executive management seek to operate beyond this through a combination of systems, procedures and controls to ensure our stakeholders are treated ethically, openly and with integrity.

Risks and uncertainties

The following factors may affect the Group's operating results, financial condition and/or the trading price of the Company's shares. The risk factors described below are those which the Directors believe are potentially significant but this should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties related to an investment in the Company.

Trading risks

The trading performance of the Group may be affected by a number of factors outside its control, including:

- wars or international unrest;
- acts of terrorism in key tourist destinations or epidemics such as avian flu or the threat of either which may materially restrict international travel;
- earthquakes or other natural disasters in key tourist destinations;
- weather conditions, both in places where the Group's customers live and in key tourist destinations;
- general economic conditions in the Group's key markets of the United Kingdom, Ireland, the Nordic countries, Canada and the United States of America; and
- additional security requirements.

These factors may affect the Group by reducing demand, as its potential customers choose not to, or become unable to, travel. Reductions in demand in an industry with capacity that in the short term is fixed leads to overcapacity with associated pressure on margins. These factors may also affect booking patterns, as increased political and economic uncertainty may lead to an increased propensity for customers to book closer to departure, which as a result of relative inflexibility of capacity increases the risk that unsold holidays late in the season will have to be sold at prices that are significantly less than it costs to provide them, or will remain unsold.

Competition

In its principal markets, the Group faces competition from a relatively small number of established companies each with significant market share. It also faces competition from internet based distributors and low cost airlines. Competitive pressures could affect the ability of the Group to achieve bookings at satisfactory margins.

Regulatory risks
Throughout its operations, the Group requires regulatory licences and approvals. These regulatory requirements vary depending on the area of operation and the specific activity. Failure to continue to satisfy the necessary regulatory criteria (whether financial or operational) could result in the suspension, revocation or non-renewal of one or more necessary licence(s) which, in certain cases, depending on the particular licence or approval concerned, could result in the cessation of that operation.

Working capital management
The Group's working capital requires careful management. This involves the management of the timing and amount of significant payments and receipts. The Group has limited ability to influence the timing of these cash flows. Payments generally arise from commitments which are contracted in advance or necessary to enable the business to continue operating. Receipts are dependent on the quantum and timing of sales to customers. The Group manages this risk by maintaining significant undrawn working capital facilities which are shown in note 21 to the accounts. There can be no assurance, however, that these facilities will be sufficient and, if not, it would be necessary to arrange additional facilities.

Interest rate, exchange rate and commodity risks
Interest rate risk arises from the extent to which the Group holds interest rate sensitive assets or is exposed to interest rate sensitive liabilities.

Exchange rate risk arises principally because the Group's revenue and expenditure are transacted in different currencies or assets and liabilities are denominated in currencies other than sterling.

The Group's exposure to fluctuations in exchange rates can be categorised as follows:

- Transactional exposure relates primarily to the cost of acquiring accommodation and aircraft capacity and other sundry costs. These costs are, in many cases, denominated in US dollars or in local currencies of the places where holidays are provided, which may differ from the currencies in which holidays are priced to customers. In addition, the Group prices its holidays in brochures published a number of months in advance of the time that people travel, and the exchange rates used by the Group to determine those prices may therefore differ significantly from those applicable at the time costs are actually incurred in providing those holidays and/or receipts are actually received.
- Translation exposure arises because investments in foreign subsidiaries or other net assets are held in currencies other than sterling.

The Group's principal exposure to exchange rate fluctuations is in relation to the sterling/US dollar and sterling/euro exchange rates.

Commodity risk, which arises from the Group's aviation operations, relates to the risk of variations in the cost of fuel, which has been clearly demonstrated by the very large movements in the price of jet fuel experienced over recent years.

Hedging actions for transaction exposures ensure that the Group has certainty as to foreign exchange rates and fuel costs at the start of each season. The Group builds up its hedging profile to ensure it remains broadly in line with the pricing of brochures in respect of the relevant season. The Group has sufficient hedging facilities for its current and expected ongoing requirements. The Group's hedging policy is outlined in the Financial Review on page 17 and in note 23 to the Financial Statements.

Operational risks
Operational risks, which are inherent in all business activities, include those which mainly result from a potential breakdown in individual business units of the Group's control of its human, physical and operating resources. The potential financial or reputational loss arising from failures in internal controls, flaws or malfunctions in computer systems, and poor product design or delivery all fall within this category.

Directors
The Directors in office at the end of the period and their interests in the shares of the Company are listed on page 33.

During the period, save as referred to in the Remuneration Report on pages 28 to 34 and note 35, no Director is or was materially interested in any contract of significance to which the Company or any of its subsidiary undertakings is or was a party.

Supplier payment policy
It is the Company's policy to comply with the terms of payment agreed with its suppliers. Where payment terms are not negotiated, the Company endeavours to adhere to suppliers' standard terms.

The number of days' credit taken by the Company for trade purchases at 31 October 2006 was 36 days (2005: 33 days).

Corporate responsibility

During the year the Group conducted a group-wide review of its corporate responsibility policies and programmes. The outcome of the review can be found in a new Corporate Responsibility section of this Annual Report on pages 35 to 39. This will be reviewed regularly as part of the Group's continuing commitment to conduct its business in an ethical and responsible manner.

Employee participation

Offers of shares under the employee share scheme approved at the 1999 Annual General Meeting were made to eligible employees in March 1999, February 2000, May 2001 and May 2002 and were taken up by 38%, 35%, 16% and 24% of eligible employees respectively. The scheme is open to all eligible employees within the UK. Under the terms of the scheme, the Directors may offer options to purchase shares in the Company to employees who enter into an Inland Revenue approved save-as-you-earn savings contract. As at 13 December 2006, there were a total of 32,888 ordinary shares of 30p each under option under this scheme. No invitations under these schemes were issued in the year to 31 October 2006.

Substantial shareholdings

At 13 December 2006, the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

Name	Number of shares held	% of issued capital
Standard Life Investments	51,867,684	11.25
Pardus Capital Management LP	41,869,957	9.08
Legal and General Group plc and/or its subsidiaries	40,788,783	8.85
Lehman Brothers International (Europe)	32,479,716	7.04
Deutsche Bank AG and its subsidiary companies	31,476,715	6.83
J P Morgan Securities	23,582,832	5.11
Barclays plc	23,117,007	5.01
Merrill Lynch & Co Inc	18,329,592	3.98
Aviva plc	18,319,975	3.97

Corporate governance

Details of compliance with our corporate governance responsibilities are included on page 27.

Directors' disclosure statement

Each of the Directors at the date of approval of this report has confirmed that:

1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

2) the Director has taken all the steps that he ought to have taken as a Director to make himself 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.

Annual General Meeting

The notice convening the Annual General Meeting of the Company to be held in March 2007 will be accompanied by a letter to shareholders from the Chairman which will explain any special business to be transacted at the meeting.

Auditors

The Directors will place a resolution before the Annual General Meeting to reappoint Deloitte & Touche LLP as auditors for the ensuing year.

By order of the Board

G J McMahon
Secretary
14 December 2006

Registered office
Holiday House
Sandbrook Park
Sandbrook Way
Rochdale
Lancashire OL11 1SA

Directors' Responsibilities

Statement of Directors' responsibilities including adoption of going concern basis
The Directors are responsible for preparing the Annual Report and the Financial Statements. The Directors are required to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRS) and have chosen to prepare parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the Directors are required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss 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 judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

In the case of IFRS accounts, International Accounting Standard 1 requires that Financial Statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Going concern
After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Corporate Governance Report

MyTravel Group is committed to operating the highest standards of corporate governance. The following section sets out how the Company applies the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council (the "Combined Code").

The Board

The Board regards as paramount the interests of the shareholders and is ultimately responsible for ensuring the Group discharges its corporate governance responsibilities effectively. The Board also acknowledges its corporate governance responsibilities to the Group's customers and employees.

Board composition

As at 14 December 2006, the Board comprised the Chairman, four Executive and four Non-Executive Directors. Details of the Directors are included on pages 18 and 19. The composition of the Board is designed to provide an appropriate balance of Group, industry and general commercial experience and is reviewed at regular intervals to ensure that it remains appropriate to the nature of the Group's activities.

Board appraisal process

The Group has established a performance evaluation process for its Board, Committees and individual Directors, developed by the Group Company Secretary in conjunction with the Group HR Director, which ties in with the evaluation procedures for other staff within the MyTravel Group of companies. Each of the Executive Directors is subject to the performance management processes established for all employees. For the Executive Directors other than the Chief Executive, this involves their performance being reviewed by the Chief Executive. These appraisals are then reviewed by the Chairman on behalf of the rest of the Board and any key conclusions or points of note passed to the Non-Executive Directors. In relation to the Chief Executive, the Chairman has carried out an appraisal of his performance and discussed his conclusions with the Non-Executive Directors.

During the year, the Chairman conducted an evaluation of the Board's overall performance, on an informal basis, facilitated by the Group Company Secretary. This focused on attendance at meetings, preparation for discussions, contribution of specialist knowledge and experience, understanding of the Group's structure and activities, understanding of management responsibilities, understanding of and contribution to appropriate financial management policies, risk management and the Group's corporate governance and compliance policies and procedures. Separate evaluations of the effectiveness of the Board's Committees took place during the year including, in relation to the Audit and Risk Management Committee, a formal evaluation of that Committee's effectiveness by Ernst & Young LLP.

Actions to improve Board and Board Committee effectiveness have been discussed from time to time, agreed and implemented. Personal feedback on individual Directors was discussed with them privately by the Chairman. No individual performance problems were identified. In respect of all Directors who are to be submitted for re-election at the Company's AGM, their performance continues to be effective and they have continued to demonstrate the appropriate level of commitment to their role. The use of external providers in the context of Board evaluation is being kept under review.

Board induction process

In relation to any new Board appointees, the Group Company Secretary provides a pack of introductory briefing information to new Board members and, in conjunction with the Group HR Director, arranges to provide such additional information to the new Director as that Director requests and arranges to schedule any additional briefings that may be suggested by the Board.

Board strategy reviews

During the year, two Group strategy Board briefing meetings were held, in April and September, giving Executive and Non-Executive Directors a full briefing from members of senior management on current issues, enabling a full review of future strategies for the Group.

Separation of roles

The roles of Chairman and Chief Executive are distinct. Michael Beckett is Chairman and Peter McHugh is Chief Executive. The Chairman's other significant commitments are set out in his biography on page 18.

Board independence

The Board considers that all of the Non-Executive Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Notwithstanding Sir Tom Farmer's tenure with the Group exceeding twelve years, the Board considers that his independence from management and the fact that he has no business or other relationship with the Group which could materially interfere with the exercise of his independent judgement, mean that he should be considered an independent Non-Executive Director. The Board has agreed with Sir Tom that he will submit himself for re-election annually with effect from the Company's 2007 AGM.

The Board has reviewed the current roles of the Chairman and the Non-Executive Directors and does not consider that it is currently appropriate to appoint a senior independent Director. Where contact through the normal channels does not satisfy investors' concerns, and an investor feels that contact with a relevant Non-Executive Director will be of benefit, then contact will be arranged as appropriate in the circumstances.

Board meetings

The Board meets a minimum of eight times a year at scheduled times and otherwise on an ad hoc basis as required to consider strategic proposals, review financial performance against budgets, review operational performance against plans, and consider other matters reserved for the Board. In addition to these meetings, there is regular dialogue between management and the Board by means of telephone conference calls, update notes and other electronic links.

Independent advice

There is a procedure in place whereby the Directors are able to take professional advice at the Company's expense in relation to any matter which relates to their position as a Director (but not personal matters).

Shareholder communication

The Board promotes open communication with shareholders, which is formalised within a framework of investor relations, and includes formal presentations of full year and interim results, trading statements, and regular meetings between executive management and institutional investors. In addition, the Board responds to ad hoc requests for information and all shareholders have an opportunity to question the Board at the AGM.

A review of the performance and financial position of the key operations is provided in the Operating Review on page 6 and the Financial Review on page 12. The Board uses these reports to present a balanced and understandable assessment of the Group's position and prospects.

Committees of the Board

The Board has established four standing committees to assist in the discharge of corporate governance responsibilities. The terms of reference for these committees are included within the MyTravel Group plc Corporate Governance Compliance Statement, published on the Group website at www.mytravelgroup.com.

Nominations Committee

Michael Beckett (Chairman)
Sir Tom Farmer
Dr Angus Porter

This Committee meets on an ad hoc basis, as required, to make recommendations in relation to all new appointments to the Board and in respect of the Board's composition and balance. The Committee considers candidates for appointment to the Board following consultation between the Chairman of the Committee and the Chief Executive. There were no new appointments to the Board in the year.

Management Development and Remuneration Committee

Michael Beckett (Chairman)
Roger Burnell
Sir Tom Farmer
Dr Angus Porter

This Committee was established in compliance with, and operates within, the framework prescribed in the Combined Code. The Committee reviews the remuneration, incentive packages and contractual arrangements of the Executive Directors and senior executives of the Group to ensure that the Group's Directors are fairly rewarded for their individual contributions to MyTravel Group's overall performance. The Committee is also responsible for determining the basis on which the employment of the Group's Directors is terminated.

Full details of Directors' remuneration are included in the Remuneration Report on pages 28 to 34.

Audit and Risk Management Committee

David Allvey (Chairman)
Michael Beckett
Sir Tom Farmer

With effect from 1 November 2006, Roger Burnell was appointed to the Audit and Risk Management Committee.

The role of the Audit and Risk Management Committee is to review and monitor the integrity of the half year and annual financial statements; to consider the appointment of the auditors, audit fees, the scope of audit work and any resultant findings; to keep under review the scope of non-audit services provided by the auditors and to ensure that the provision of non-audit services does not impair the auditors' independence or objectivity; to review the scope, remit and findings of the Internal Audit function; to review the accounting policies used in the preparation of the Group's accounts; to review and monitor the Group's risk management strategy; and to review and monitor the effectiveness of the system of internal control.

The Committee has developed a policy for the provision of non-audit services by the auditors and pre-approves material fees for non-audit services in accordance with that policy in order to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity. The policy is set out in the Group's Corporate Governance Compliance Statement published on the Group website at www.mytravelgroup.com. An analysis of the fees earned by Deloitte & Touche LLP for audit and non-audit services is disclosed in note 9 to the Financial Statements.

During the year the composition and effectiveness of the Audit and Risk Management Committee were reviewed and reported on by Ernst & Young LLP. The principal conclusions of that review were:

- the Group complies with the requirements of the Combined Code in relation to the composition of the Committee, save to the extent that Mr Beckett, Chairman of the Board, is a member of the Committee. This matter is dealt with on page 27 of this Report;
- the terms of reference of the Committee reflect the requirements of the Combined Code; and
- the Committee is effective in discharging its responsibilities under those terms of reference.

Health, Safety and Environmental Committee
Roger Burnell (Chairman)
Michael Beckett
David Allvey
Peter McHugh

The role of the Committee is to review and supervise the development and maintenance of consistent standards for managing health, safety and environmental risks and impacts in the Group's activities; to review and oversee the development and implementation of the MyTravel Group Health, Safety and Environmental policy; and to monitor the compliance of the Group with legislation and regulation relating to health, safety and the environment in all of its areas of operation.

Risk management and internal control

The Board recognises its ultimate accountability for maintaining an effective system of internal control that is appropriate in relation to both the scope and the nature of the Group's activities.

The responsibility for managing risk on a day to day basis through the design and operation of a risk and control infrastructure lies with the Executive Directors and management of the Group. The Board recognises that such systems are designed to manage and monitor, rather than to eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material error or loss.

The Group Risk Management Committee, which is chaired by the Group Finance Director, is responsible for recommending risk management strategies, assessing the effectiveness of the risk management process and assessing the effects of new risks on the corporate risk profile. That Committee reports directly to the Audit and Risk Management Committee and consists of senior members of the Group's executive management team, covering all major functions and businesses within the Group.

To support the Group Risk Management Committee there are risk management committees for each of the principal divisions in the UK, the Nordic countries and North America. These committees review existing risk management controls and procedures, update risk reporting and risk registers and manage the implementation of risk action implementation plans. The committees report on a regular basis to the Group Risk Management Committee on developments in the period.

Board and committee attendance by Director

	Full Board (13 meetings)	Management Development and Remuneration Committee (4 meetings)	Audit and Risk Management Committee (7 meetings)	Health, Safety and Environmental Committee (4 meetings)
M E Beckett	13	4	6	3
P T McHugh	13	–	–	4
J S Allkins	12	–	–	–
J M Bloodworth	13	–	–	–
S I E Weihagen	13	–	–	–
D P Allvey	11	–	7	4
R D Burnell	11	3	–	4
Sir Tom Farmer	12	3	6	–
Dr A J Porter	9	4	–	–

The Group Risk Management Committee prepares a six monthly risk report for the attention of the Audit and Risk Management Committee. Based on the feedback from the divisional risk committees and a review at Group level, the report identifies the principal risks to the business and assesses the adequacy of controls and procedures in place to mitigate the likelihood and the impact of these risks.

The regular risk reporting regime has created an environment for the development and improvement of risk management procedures across the Group. The Audit and Risk Management Committee reviews the reports of the Group Risk Management Committee and makes recommendations to improve risk management and internal control.

This process of risk identification, measurement and reporting provides a comprehensive ongoing assessment of the significant risks facing the Group and the mitigation actions taken in respect of those risks. This process ensures that the Group complies with the relevant corporate governance best practice in relation to risk management including the guidance issued under the Turnbull Report.

The Group has established an Internal Audit function which reports directly to the Chairman of the Audit and Risk Management Committee. Internal Audit makes recommendations to that Committee in relation to the maintenance of a sound control environment throughout the Group.

The Group encourages employees to report any concerns which they feel need to be brought to the attention of management and has adopted a whistleblowing policy and a Group theft and fraud reporting policy which are published on the Group's intranet sites, allowing such matters to be raised in confidence through the appropriate channels.

The Group has a code of ethics which deals with:

- prohibitions on employees using their position for personal gain;
- prohibitions on improper business practices;
- a requirement for compliance with all internal approval and authorisation procedures and legal requirements;
- a requirement to disclose potential conflicts of interest and potential related party contracts.

During the year, the Board, through the work of the Audit and Risk Management Committee, has conducted a review of the Group's system of internal control. There is an ongoing process for the identification and evaluation of risk management and internal control processes which has been in place throughout the year and remains in place up to the date of the Financial Statements.

This code of ethics is contained within the Group's internal policies guide which is available to all employees and, in particular, those with responsibility for procurement or other dealings with third party suppliers. In addition, the Group Company Secretary is available for advice on any matter which may give rise to cause for concern in relation to the code of ethics.

Compliance with the provisions of the Combined Code

The Directors have carried out a review of the Group's corporate governance policies and procedures in the light of the requirements of section one of the Combined Code. This review has indicated that the Company has been in compliance with the provisions of the Combined Code throughout the year, with the exception of the matters referred to below:

- Provision A.3.3 of the Combined Code states that the Board should appoint one of the independent Non-Executive Directors to be the senior independent Director. For the reasons set out on page 24, the Board does not consider that it is currently appropriate to appoint a senior independent Director. This decision will be reviewed each year.
- Provision B.2.1 of the Combined Code states that the members of the Management Development and Remuneration Committee should all be independent Non-Executive Directors and that the Board Chairman may also be a member. Provision C.3.1 of the Combined Code states that the members of the Audit and Risk Management Committee should all be independent Non-Executive Directors. Michael Beckett is a member of both of these Committees. As Chairman, Mr Beckett is not a Non-Executive Director. However, he was independent of management at the date of his appointment and the Board consider that it is appropriate for him to sit on these Committees. The Board believes that it is appropriate for Mr Beckett to remain as Chairman of the Management Development and Remuneration Committee because of his extensive experience, his clear understanding of the issues surrounding the role of Executive Directors, the demands and expectations of those Directors and of the Board as a whole and the issues surrounding compensation and reward for Board Directors.

The Board has adopted a Corporate Governance Compliance Statement that sets out how the policies, procedures and practices of the Group comply with or, in the case of the areas referred to in the preceding paragraphs, deviate from the Combined Code. A copy of this statement is available, on request, from the Group Company Secretary or on the Group's website at www.mytravelgroup.com.

Remuneration Report

This report has been prepared to comply with requirements of the Companies Act 1985 as amended by the Directors' Remuneration Report Regulations 2002 (the "Regulations"). As the Regulations provide that certain of the information is to be the subject of the Auditors' Report and other information is not, this report is divided into sections of audited and unaudited information.

This report will be the subject of a separate resolution for approval at the AGM of the Company before which the annual accounts are to be laid.

A. INFORMATION NOT SUBJECT TO AUDIT

As at 14 December 2006, the members of the Management Development and Remuneration Committee were Michael Beckett (Non-Executive Chairman) and three other Non-Executive Directors, Roger Burnell, Sir Tom Farmer and Dr Angus Porter.

The Committee invites such other representatives of the Group to attend meetings as it deems beneficial to assist it in consideration of matters raised. During the year, these have included the Chief Executive and the Group Company Secretary.

The Committee is responsible for the determination of the remuneration policy as applied to the Executive Directors of the Company.

In performance of its duties, the Committee has obtained advice from external advisors. PricewaterhouseCoopers LLP has provided information and advice regarding the design of and performance criteria for incentive arrangements and benchmarking of salaries and benefits for Executive Directors. Deloitte & Touche LLP provided benchmarking information in relation to Non-Executive Directors' fees. The Board has subsequently resolved that for so long as Deloitte & Touche LLP remain the Company's auditors, they will not be asked to provide advice in relation to the remuneration arrangements for Directors.

Legal advice is provided by the in-house legal function and by external solicitors. In particular, advice has been sought regarding Directors' contracts and incentive arrangements.

Appointments of advisors were made through the Group HR Director and the Group Company Secretary at the request of the Management Development and Remuneration Committee.

Remuneration policy

The Group's remuneration policy is to ensure that Directors and senior executives are rewarded in a way which attracts and retains management of the highest quality and motivates them to achieve the highest level of performance consistent with the best interests of the Group, its shareholders and employees. In developing its remuneration policy, the Board's Management Development and Remuneration Committee has had regard to the fact that the Group has genuinely international operations and, in order to compete in the global environment for the recruitment, retention and incentivisation of high quality Executive Directors and senior managers, it must offer rewards which, on the basis of performance, are in the upper quartile.

The Management Development and Remuneration Committee has determined that its policy for the design of remuneration arrangements for Executive Directors is that base salary shall be set in line with the median of a peer group of companies with which the Company should properly be compared and that total earnings (which are made up of base salary plus bonuses and any other performance related elements of reward, such as long term incentive arrangements) shall be set in the upper quartile of the comparator group but subject to the attainment of appropriate and challenging performance criteria. In setting this policy, the Management Development and Remuneration Committee has been advised by PricewaterhouseCoopers LLP.

The Company's bonus scheme and 2004 Management Incentive Plan are designed to link benefits to performance. Further details of those arrangements, including performance conditions, are provided on pages 29 and 30.

Each Director's remuneration entitlement is set out in the audited section of this report.

Individual remuneration packages for Executive Directors reflect the annual and long term performance of the Group measured against targets set by the Committee and adopted by the Board.

The remuneration of Non-Executive Directors is determined by the Board excluding the Non-Executive Directors. Non-Executive Directors do not participate in any bonus plans, are not eligible to participate in any long term incentive plans and no pension contributions are made on their behalf.

With effect from January 2006, the fees payable to the Chairman and each of the Non-Executive Directors were reviewed by the Executive Directors with the benefit of advice received from the Group HR Director, the Group Company Secretary and a benchmarking review carried out by Deloitte & Touche LLP. The fees payable to the Chairman and the Non-Executive Directors are set out in the audited section of this report.

The main elements of Executive Directors' remuneration are: base salary, bonus, pension rights and share option schemes. Details of the remuneration of the Executive Directors are set out in the audited section of this report.

1 Base salary and benefits

Base salaries for Executive Directors are reviewed annually. The base salaries for Mr McHugh and Mr Allkins were reviewed by the Committee with effect from January 2006 following a benchmarking exercise carried out by PricewaterhouseCoopers LLP.

Benefits include the provision of pensions, private health insurance, prolonged disability cover, death in service benefits and, in the case of Mr Allkins, Mr Bloodworth and Mr Weihagen, a fully expensed motor vehicle. In addition, Mr McHugh and Mr Bloodworth are entitled to an annual product review allowance. Details of the amount of such allowance and the extent to which it was utilised in the year are set out in the audited section of this report. The purpose of this allowance is to enable the Director to purchase and review other suppliers' products and services to facilitate market research and comparisons to Group products and standards of product delivery.

2 Bonuses

a) Annual bonus

The annual bonus for each of the Executive Directors is calculated on the basis of an annual entitlement to a maximum bonus calculated as 100% of base salary. Bonuses will normally be paid in the January following the end of the relevant financial year in which they are earned.

Bonus entitlement is subject to the attainment of certain criteria set by the Management Development and Remuneration Committee and agreed with each Executive Director at the start of each financial year.

These criteria are as follows:

i) 75% of the bonus entitlement is linked to the attainment of financial targets and is earned on a pro rata basis by reference to the achievement of those targets. For Mr McHugh and Mr Allkins, these financial targets are based on the budgeted Group profit for the year. For Mr Bloodworth and Mr Weihagen, these are based on the budgeted profit for the year for the division for which they respectively have responsibility; and

ii) 25% of the bonus entitlement is linked to the attainment by the individual of non-financial criteria linked to the development of the Group and the implementation of the Board's strategy and which are set by the Management Development and Remuneration Committee and agreed with each Executive Director at the start of the financial year. However, entitlement to this element of the bonus will only vest and become payable rateably to the extent that the financially based elements of that Executive Director's bonus vest.

b) Restructuring bonuses

During the year each of Mr McHugh and Mr Allkins received the second tranche of the bonuses payable to them which arose on the successful restructuring of the Company. The details of these restructuring bonuses were fully explained in the Remuneration Report of the Company for the period ended 31 October 2005. Payment of the second tranche of these restructuring bonuses was deferred until after the publication of the results of the Group for the period ended 31 October 2005. The amounts concerned were set out in the audited section of the Remuneration Report that formed part of the 2005 Annual Report.

3 Pensions

The Group contributes each year into a pension scheme or similar arrangement for each of Mr McHugh, Mr Allkins and Mr Bloodworth an amount equivalent to 25% of their annual salary.

The Group pays a premium to ensure that Mr Weihagen receives a pension benefit of 70% of his basic salary from 60-64 years of age and 30% of his basic salary from 65 years of age. If Mr Weihagen leaves MyTravel Northern Europe AB before the age of 60, the Group will cease to pay the premiums but Mr Weihagen will have the right to a pension based on the funds invested to that date.

4 Share option schemes

a) 2004 Management Incentive Plan

On 24 December 2004, shareholders approved a share option scheme (the 2004 Management Incentive Plan) to incentivise the Group's senior management to achieve the business plan objective of increasing the profitability of the Group throughout its divisions and in its head office functions and to retain the senior management responsible for the delivery of that business plan. The 2004 Management Incentive Plan was adopted by the Board on 29 December 2004.

Participants in the 2004 Management Incentive Plan were selected by the Management Development and Remuneration Committee from the senior employees and Executive Directors of the Group who, in each case, would not reach their anticipated retirement date within six months of the date of grant.

Under the terms of the 2004 Management Incentive Plan, the Company granted options to participants which entitle the holder to acquire ordinary shares in the Company. Options are personal to the participant and may not be transferred. No payment was required for the grant of an option.

The Management Development and Remuneration Committee negotiated and agreed the terms of the 2004 Management Incentive Plan with the Co-ordinating Committee representing the Group's banks and other financial creditors (who would become the holders of the vast majority of the equity of the Company on implementation of its restructuring in 2004). This plan was designed to ensure that senior management was appropriately incentivised to deliver the necessary business turnaround and to remain with the Group for the period necessary to achieve this and to increase the value of the equity into which, under that restructuring, debt entitlements would be exchanged.

The Board has resolved that there will be no further grants of awards under the 2004 Management Incentive Plan without first consulting with key shareholders and shareholder representative groups on revised vesting criteria for such awards reflecting the Group's changed circumstances.

Under the 2004 Management Incentive Plan there are two series of awards:

i) Series 1 awards (which may not exceed 25% of the total awards to a participant) which will vest provided a participant continues in employment with a Group company as to 33.3% on or after the second anniversary of the initial grant date, as to 33.3% on or after the third anniversary of the initial grant date and as to 33.4% on or after the fourth anniversary of the initial grant date. The linkage of these Series 1 options to continued employment with the Group for two, three and four years following the restructuring was specifically designed to ensure that senior key managers remained with the Group through the ongoing business turnaround phase.

ii) Series 2 awards vested on the Company's market capitalisation attaining, for a continuous period of 30 days, thresholds set by the Management Development and Remuneration Committee. These thresholds have all been satisfied and all of the Series 2 awards have vested. The linkage of the Series 2 options to increases in the market capitalisation of the Company was designed to ensure that the banks and other financial creditors who entered into the debt for equity exchange which was fundamental to the Company's restructuring, would obtain real value from this process. Bearing in mind that the Company had at that time no distributable reserves with which to provide any dividends, increases in the equity value were crucial to those stakeholders seeking to recoup their investments following that debt/equity exchange. Details of the vesting criteria of these Series 2 awards are contained in the audited section of this report.

b) New long term incentive plan proposals

With the benefit of advice from PricewaterhouseCoopers LLP on the Board's remuneration strategy for its Executive Directors and on incentive plan design and structure, and after consultation with key shareholders and shareholder representative bodies, the Board has decided to put in place a new long term incentive plan. This new plan is intended to provide incentives for Executive Directors and other members of senior management. The Board expects that this new long term incentive plan will be put to shareholders for consideration at the 2007 AGM.

c) MyTravel Group plc savings-related share option scheme

The Company operates a savings-related share option scheme (SAYE scheme) which provides a long term savings and investment opportunity for employees. Directors may participate on equal terms with other employees. Details of this scheme are set out on page 22. No Director holds any awards under this scheme.

5 Service contracts

Each of the Executive Directors, other than Mr Weihagen, has a service contract with the Company. Mr Weihagen's service contract is with MyTravel Northern Europe AB. The date of the service agreements and their notice periods for each Executive Director at 31 October 2006 and those who served during the period are set out below:

Directors	Date of agreement	Notice period (months)
P T McHugh	13 December 2002	12
J S Allkins	10 December 2003	12
J M Bloodworth	1 November 2005	12
S I E Weihagen	15 May 1994	12

The Executive Directors' service contracts do not have a fixed termination date. The minimum unexpired term of each contract on a given date will be its notice period as set out above. In the event of early termination, compensation would be negotiated on an individual basis taking account of salary and the relevant notice period, together with other benefits provided by the Company as set out in this report. Depending upon the particular circumstances of termination, the Company would expect a Director to mitigate his losses in assessing the level of any compensation.

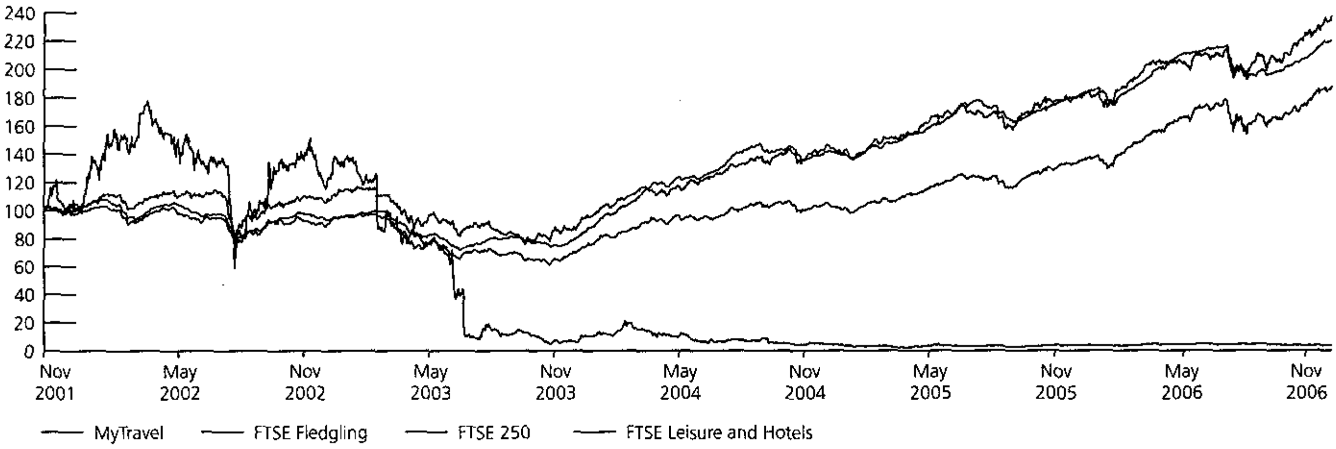
Notice periods are negotiated on an individual basis but are usually 12 months from either party in the case of Executive Directors and six months in the case of Non-Executive Directors. The Board believes that these notice periods are appropriate given the need to retain the specialist skills that the Directors bring to the business and to achieve continuity in the Company's senior management.

Each of the Non-Executive Directors of MyTravel Group plc has been appointed pursuant to a letter of appointment. The appointments under these letters continue until the expiry date set out below unless terminated for cause or on the period of notice stated below.

Current Directors	Date of agreement	Expiry date	Notice period (months unless otherwise stated)
M E Beckett	4 March 2004	N/A	90 days
D P Allvey	1 April 2006	31 March 2009	6 months
R D Burnell	1 April 2006	31 March 2009	6 months
Sir Tom Farmer	19 March 2006	expiry of 2007 AGM	6 months
Dr A J Porter	31 March 2005	31 March 2008	6 months

Performance graph

The graph below shows the total shareholder return for holders of MyTravel Group plc 30p ordinary shares for the latest five financial periods measured against the FTSE 250 Index, FTSE Fledgling Index and the FTSE Leisure & Hotel Index. These indices were chosen as comparators because the Company was a constituent of the FTSE 250 for part of the period and the FTSE Fledgling for part of the period and the FTSE Leisure & Hotel Index throughout the period. The calculation of total shareholder return follows the provisions of the Regulations and is broadly the change in market price together with reinvestment of dividend income. The graph below does not, however, reflect the fact that since the Group completed its financial restructuring in December 2004, the market price of ordinary shares in MyTravel Group plc has increased from 180p (3 January 2005) to 223.5p (13 December 2006). This takes into account the share consolidation in March 2005.



SECTION 01 SECTION 02 SECTION 03 SECTION 04 SECTION 05 SECTION 06 SECTION 07

Remuneration Report *continued*

B. INFORMATION SUBJECT TO AUDIT

Remuneration in respect of Directors was as follows:

	Annual base salary *October 2006* £000	Salary *and fees* £000	Bonus *payments* £000	*Benefits* £000	Total *2006* £000	Total *2005* £000	Pension contributions *2006* £000	Pension contributions *2005* £000
Executive								
P T McHugh	600	589	–	363	952	3,552	250	227
J S Allkins	380	375	–	57	432	1,232	93	88
J M Bloodworth								
(appointed 1 November 2005)	300	300	–	100	400	–	127	–
S I E Weihagen	293	293	293	14	600	463	170	140
		1,557	293	534	2,384	5,247	640	455
Non-Executive								
M E Beckett, Chairman	220	217	–	–	217	200	–	–
D P Allvey	60	57	–	–	57	43	–	–
R D Burnell*	55	52	–	–	52	36	–	–
Sir Tom Farmer	50	45	–	–	45	19	–	–
Dr A J Porter	50	48	–	–	48	29	–	–
P A Walker (resigned 24 December 2004)	–	–	–	–	–	5	–	–
		419	–	–	419	332	–	–
Total emoluments		1,976	293	534	2,803	5,579	640	455

*Pursuant to an agreement dated 7 May 2003 between the Company and Dragonfly, a partnership the partners of which are Roger Burnell and Susan Burnell, the Company paid to Dragonfly £18,000 per annum in order to engage the services of Mr Burnell to provide additional consulting and advisory services to the Company. These fees are included in the table above. This arrangement was terminated, by mutual consent, on 1 April 2006 and the entitlement of Dragonfly to fees ceased with effect from that date.

Included in the above table are the taxable benefits related to the matters set out below:

- The Company has agreed with Mr McHugh, who is not a UK national, to (1) arrange for the tax equalisation of his remuneration such that he will not be adversely affected by UK taxes (2) pay part of the cost of his UK accommodation (3) pay for travel between the UK and the USA for Mr McHugh and his wife and (4) pay USD 28,000 per annum in relation to US travel expenses.

- Mr Allkins, Mr Bloodworth and Mr Weihagen are each entitled to a fully expensed motor car.

- The Company has agreed with Mr Bloodworth, who is not a UK national, to (1) arrange for the tax equalisation of his remuneration such that he will not be adversely affected by UK taxes and (2) to pay for travel between the UK and the USA each year to be used by Mr Bloodworth and/or his family.

- Each of the Executive Directors is eligible for private health insurance, prolonged disability insurance and death in service benefits (subject, in each case, to their being accepted for cover and satisfying any applicable arrangements and/or terms and conditions of the insurers from time to time in force).

The following table sets out the amount of and the extent to which each of the Directors who are entitled to a product review allowance utilised their allowance.

	Amount of product review £	Amount used £
P T McHugh	25,000	14,642
J M Bloodworth	25,000	10,651
D P Allvey	7,000	7,000

Until 31 March 2006 Sir Tom Farmer was entitled to a product review allowance. This entitlement ceased by mutual consent with effect from 31 March 2006.

Following the successful implementation of the restructuring, and included in the bonus payments set out above, Mr McHugh and Mr Allkins received the second part of the restructuring bonuses payable to them. The amounts concerned were set out in the audited section of the Remuneration Report that formed part of the 2005 Annual Report.

Directors' interests in shares

The interests, beneficial unless otherwise indicated, of the Directors in the 30p ordinary shares of the Company, as shown by the register maintained under section 325 of the Companies Act 1985, at 1 November 2005 and 31 October 2006 were as follows:

	Ordinary shares 2006	Ordinary shares 2005	Management Incentive Plan 2006	Management Incentive Plan 2005
M E Beckett	24,999	24,999	–	–
P T McHugh	224,013	28,992	1,746,215	2,793,944
J S Allkins	95,687	–	856,787	1,370,860
J M Bloodworth	62,652	–	560,991	897,586
S I E Weihagen	671	671	765,171	941,749
D P Allvey	–	–	–	–
R D Burnell*	3,692	3,692	–	–
Sir Tom Farmer	839,563	839,563	–	–
Dr A J Porter	10,428	10,428	–	–

*Interest arising through a holding of shares in the name of Mrs Burnell.

None of the Directors of the Company held any interest in any other securities of MyTravel Group plc during the period.

In the period from 31 October 2006 to 14 December 2006 there were no changes in the Directors' interests referred to above.

Mr P T McHugh, Mr J S Allkins, Mr J Bloodworth and Mr S Weihagen fall within the class of discretionary beneficiaries of the MyTravel Group plc No.3 Employee Benefit Trust (the "No.3 EBT") and are therefore deemed, pursuant to the Companies Act 1985, to be interested in all of the 26,742 ordinary shares in the Company held by the No.3 EBT. Such interest is in addition to the interests disclosed above in relation to them. None of the Directors of the Company held any interest in any other securities of MyTravel Group plc during the period.

Share options and long term incentive schemes

The following table shows, in respect of each person who served as a Director at any time in the financial year ended 31 October 2006, the number of ordinary shares of 30p each that were the subject of a share option on 1 November 2005 and at 31 October 2006.

	Scheme name		At 31 October 2006	Lapsed in year	Exercised in year	Granted in year	At 1 November 2005	Exercise price	Date from which exercisable	Expiry date
P T McHugh	MyTravel Group Management Incentive Plan	Series 1	698,486	–	–	–	698,486	144p	*	31.1.2015
		Series 2	1,047,729	–	1,047,729	–	2,095,458	144p	**	31.1.2015
J S Allkins	MyTravel Group Management Incentive Plan	Series 1	342,715	–	–	–	342,715	144p	*	31.1.2015
		Series 2	514,072	–	514,073	–	1,028,145	144p	**	31.1.2015
J M Bloodworth	MyTravel Group Management Incentive Plan	Series 1	224,396	–	–	–	224,396	144p	*	31.1.2015
		Series 2	336,595	–	336,595	–	673,190	144p	**	31.1.2015
S I E Weihagen	MyTravel Group Management Incentive Plan	Series 1	235,437	–	–	–	235,437	144p	*	31.1.2015
		Series 2	529,734	–	176,578	–	706,312	144p	**	31.1.2015

*33.3% of the Series 1 awards under the Management Incentive Plan become exercisable on the second anniversary of the date of grant. The second 33.3% become exercisable on the third anniversary of the date of grant and the final 33.4% become exercisable on the fourth anniversary of the date of grant.

**33.3% of the Series 2 awards under the Management Incentive Plan became exercisable when the market capital of the Company reached £650m for 30 consecutive days. The second 33.3% became exercisable when the market capital of the Company reached £725m for 30 consecutive days and the final 33.4% became exercisable when the market capital of the Company reached £800m for 30 consecutive days.

The mid-market price of the Company's ordinary shares at the close of business on 31 October 2006 was 188.5p (31 October 2005: 177.75p) and the range during the year ended 31 October 2006 was 173p to 251.75p. These mid-market prices are as quoted on the London Stock Exchange. Set out below is a summary of the gains on exercise made by Directors who exercised share options during the year ended 31 October 2006 and the preceding year.

		Exercised year ended 31 October 2006	Exercised year ended 31 October 2005	Exercise price	Market price at date of exercise	Gain year ended 31 October 2006 £	Gain year ended 31 October 2005 £
P T McHugh	Deferred Bonus Plan	–	329†	–	154.5p†	–	509
P T McHugh	Management Incentive Plan	1,047,729	–	144p	228.8p	888,474	–
J S Allkins	Management Incentive Plan	514,073	–	144p	228.8p	435,934	–
J M Bloodworth	Management Incentive Plan	336,595	–	144p	228.8p	285,433	–
S I E Weihagen	Management Incentive Plan	176,578	–	144p	248.0p	183,641	–

†This holding and the market price at date of exercise have been restated to reflect the share consolidation approved by shareholders in March 2005.

On behalf of the Board

M E Beckett
Chairman of the Management Development and Remuneration Committee
14 December 2006

Corporate Responsibility

Our approach

As an international group, operating in over 60 countries with approximately 13,000 staff worldwide, MyTravel aims to conduct its business in an ethical and responsible manner, to contribute to the communities in which it operates and to respect the needs of customers, shareholders, staff, suppliers and the environment.

In the past year, MyTravel has undertaken a process of consultation and review to identify the corporate responsibility issues that relate to its business. We have identified our main areas of corporate responsibility risk and opportunity as:

- Product quality and customer satisfaction;
- Health and safety;
- The environment;
- Community involvement; and
- Staff and management

and initiated a review process to ensure progress continues to be made.

Product quality and customer satisfaction

Quality

The control and assurance of the quality of products and services provided by the Group is a fundamental element of our customer proposition. MyTravel has a dedicated quality assurance team, which continuously monitors product performance and provides focused management information to our tour operating, airline, retail and in-resort operations.

The key data we use to assess our quality performance includes:

- airline on-time performance (OTP);
- scores from in-resort and in-flight customer service questionnaires, processed by an independent third party or, for MyTravel Northern Europe, internal resources; and.
- qualitative feedback from customers, both directly and through our in-resort teams and agents.

We encourage customer feedback on all aspects of our products and services. Customers have access to a 24 hour customer service helpline in all mass market charter resorts and similar helplines in each of our departure countries.

MyTravel Airways achieved first place among UK charter airlines for on-time performance for the winter 05/06 season (the most recent completed season for which figures have been released).

We continually review the quality standards of our accommodation suppliers to ensure that the accommodation provided to our customers is of the highest available quality. Our accommodation purchasing strategy is to focus on the best performing suppliers of like for like product.

We have continued to invest in the provision of customer services both in resort and in departure countries.

Consumer protection

Customers purchasing holidays from the MyTravel Group have the benefit of consumer protection provided through bonding or equivalent arrangements. This ensures that in the unlikely event of the holiday provider failing, customers who are overseas will be repatriated at the end of their holidays and customers who are unable to travel will be refunded.

Health and safety

The health and safety of our customers is extremely important to us. We recognise our legal and wider responsibilities to our customers. We also recognise that many of the broad range of services we offer are delivered by a large number of independent suppliers operating in many different jurisdictions. The regulatory regimes and safety standards in those jurisdictions are diverse. We recognise our responsibility to contract with reputable suppliers and to take steps to provide services which meet a reasonable standard of safety having regard to the local standards in each country.

Responsibility for day to day health and safety rests with individual business units, supported by specialist teams based in each of the three divisions. The Health, Safety and Environmental Committee is responsible for the oversight and monitoring of these functions.

The Group will take all necessary action to safeguard the health, safety and welfare of all employees, contractors and visitors to its premises or operations under its control. The Group will ensure that responsibilities for health and safety are properly assigned, accepted and fulfilled at all levels within the Group. The head of each business and all members of the management team together with the relevant departmental, store and functional managers are committed to the implementation of this policy. The Group will, so far as reasonably practicable, provide and maintain a safe and healthy working environment for everyone and make adequate provision with regard to the facilities and arrangements for their health and safety at work.

MyTravel's policy is to contract with suppliers on the basis that they meet the health and safety requirements of the country in which they are resident. This reflects the general legal position in relation to our obligations in our departure markets and, where relevant, under the EU Package Travel Directive. We assess the suitability of suppliers on entry to our programmes and regularly thereafter. We do not operate with any airline named on the European Union "Black List", introduced by regulation (EC) No 2111/2005 in March 2006.

Where appropriate, and by reference to the circumstances in each country, we also provide information to customers to assist them in taking reasonable precautions for their own safety.

The Group's Health and Safety policy is available on the Group's website at www.mytravelgroup.com.

Security
We regard the security of our customers and staff as being of fundamental importance.

It is in the nature of international travel that a large number of people may be in potentially hazardous situations (particularly in the political climate in some parts of the world). In recognition of this, the Group's Security Measures Committee, which is made up of representatives of each of the Group's operating divisions and relevant central functions, and works in conjunction with the Board's Health, Safety and Environmental Committee, undertakes regular reviews of potential risks and exposures to security threats to people and assets and the adequacy of mitigating actions in respect of those threats. That Committee meets regularly and, as circumstances require, on an ad hoc basis and, where appropriate, makes recommendations to the operating divisions of the Group.

Our airlines comply fully with all security measures introduced by the relevant government agencies.

The environment
MyTravel is proud that its business, as part of the global tourism industry, can be an economic driver for the countries where we operate, providing commercial benefit and financial impetus as well as a positive cultural exchange. We recognise the importance of tourism for economies and communities, whilst also being aware of the potential impact on the environments, communities and cultures of the places in which we operate. As a result, we try to ensure that business operations are conducted in a responsible way.

From time to time one of the destinations to which we travel is affected by a natural or man-made disaster, and these sometimes affect our customers. Our record in recent disasters, including the South-East Asian Tsunami and Hurricane Wilma, shows our commitment to the safety, health and welfare of our customers while they are on holiday. We have also taken part in efforts to rebuild the tourism industry in areas afflicted by disasters.

We recognise that protecting the environment is very important to the communities that host our customers and staff. For the long term success of our operation, it is essential that we do as much as we can to protect the resources upon which our business depends. We will strive to improve our environmental performance and to minimise any negative impact resulting from our operations.

Aircraft fuel efficiency
MyTravel conforms to industry best practice standards to ensure we operate at high levels of fuel efficiency and minimise emissions, while according to the Stern report, aviation accounts for only 1.6% of global greenhouse gases.

Fuel usage is a substantial and increasing element of the cost of flying. MyTravel is committed to minimising fuel usage through the use of fuel efficient aircraft, efficient flight plans and optimum flight speeds. Over the past three years, the older, less efficient DC10s and older B757s have been removed from the fleet. We will take opportunities as they arise to dispose of the less efficient V2500 A1 engined A320 aircraft and replace them with more efficient and higher capacity CFM engined A321 aircraft.

CO_2 emissions
Emissions of carbon dioxide (CO_2) are directly proportional to the quantity of fuel burned. MyTravel has therefore worked to achieve a more fuel efficient fleet mix and develop fuel efficient operational procedures for the fleet. As a result the fuel consumption per passenger kilometre has reduced over the past few years.

Fuel efficiency – MyTravel fleet

NOx emissions
Emissions of Nitrous Oxides (NOx) are a factor of fuel consumption, engine design and engine operation.

International standards relating to engine emissions are defined through the work of the ICAO Committee on Aviation Environmental Protection (CAEP), an international government and industry body. In 1997 CAEP2 standards were adopted by the Environmental Protection Agency for engine types manufactured after 31 December 1999. These standards were further developed and in 1998 more stringent CAEP4 standards were agreed for engines manufactured after 31 December 2003.

At 31 October 2006 the MyTravel fleet was made up as follows:

Aircraft type	Engine type	Number in fleet	CAEP 2 compliant	CAEP 4 compliant
B757	RB211	1		
B767	CF6-80	2		2
A320	V2500 A1	7	7	
A320	CFM56	6		6
A321	CFM56	8		8
A330	RR Trent	7		7
Total		31	7	23

Our fleet is 97% compliant with CAEP2 and 74% compliant with CAEP4.

The Group is monitoring proposals for the extension of the EU Emissions Trading Scheme (EUETS) to include aviation. The Group considers that the extension of EUETS is the best of the available options, but that this needs to be implemented with care to prevent market distortions. The Group is opposed to an EU tax on aircraft fuel as it is widely recognised that such a measure would discriminate against EU carriers and produce permanent market distortions.

Aircraft noise
The MyTravel fleet is comprised of aircraft in the lowest noise categories. We work with airports to monitor noise at take off and also monitor the accuracy with which we follow the noise minimising departure tracks.

Waste management on aircraft
On board waste is segregated into different categories (aluminium, glass and combustible waste) to permit recycling of aluminium and efficient disposal of other waste, typically through combined heat and power plants.

Workplace related
MyTravel has identified waste reduction and resource use reduction in our high-street stores and offices as key aspects of our environmental responsibility.

Key actions which have been taken include:

- use of low energy bulbs;
- use of light minders that switch off lights automatically in areas that are not in use;
- installation of efficient water management systems;
- installation of waste paper recycling bins in the majority of our facilities;
- recycling of toner cartridges, canteen waste, shredded and waste paper and most cardboard; and
- collection and recycling of brochures from stores.

Responsible tourism
We respect the natural and cultural heritage of our destination countries and understand that we must do our part in sustaining these. We encourage our customers to respect the tradition and integrity of local cultures and aim to promote the purchase of local produce, where practical. We recognise that our operations have both positive and negative impacts. Leisure aviation activity facilitates travel, social, education, leisure and employment opportunities in our source markets.

We also believe that our customers should have the opportunity to enjoy the world through the experiences that we and our destination partners create for them, whilst making a positive difference to all the destinations they visit. Information and education is therefore an important element of any strategy to manage the balance of the impacts of tourism.

MyTravel recognises that the continued growth of tourism can have a significant impact on the environment, community and culture of the places in which it operates, especially those which lack the necessary infrastructure and resources to support tourism in a sustainable manner. When this growth is managed properly, the tourism industry can create employment, investment and development as well as social and economic benefits and a positive cultural exchange. In some destinations, this may be the primary sustainable development opportunity for the local communities.

MyTravel supports the work of the Travel Foundation, an independent UK charity set up through a partnership between the UK outbound tourism industry, UK Government and other non-governmental organisations. The Travel Foundation works to protect and enhance the environment and improve the well-being of destination communities. Successful projects have been completed in the Gambia and Cyprus and are ongoing currently in Mexico, the Caribbean and Sri Lanka.

We first published a Responsible Tourism policy in May 2005. This policy is available on both our Group and consumer websites.

Supplier responsibility
MyTravel recognises that in order to develop a responsible business, we must work closely with our suppliers, as the business impact of operations is dependent in part on their actions. We work with other charter tour operators, through the International Federation of Tour Operators and national tour operator federations, to help bring about more significant changes in destination countries. As a member of the UK Federation of Tour Operators Responsible Tourism Committee, MyTravel UK has signed a statement of commitment which demonstrates its dedication to the sustainable development and management of tourism.

Together with non-governmental organisations and tour operator federations, we are working towards integrating responsible tourism best practice into the supply chain. Over the past two years, a set of best practice guidelines has been produced for suppliers, to improve their awareness and management of the environmental and social issues affecting the industry. MyTravel will not contract excursions or properties where child or female labour is abused. Nor will it contract excursions or properties where maltreatment of animals is present.

During the year, environmental and audit assessments have been carried out on all Group owned and Sunwing hotels.

MyTravel Northern Europe is currently upgrading the environmental performance of its owned Sunwing Resort hotels, several of which have already been accredited with the "EU Flower", the EU's eco-labelling scheme, and the goal is to have all European Sunwing Resort hotels similarly accredited by the end of 2007.

The Board's Health, Safety and Environmental Committee is responsible for the supervision and monitoring of the Group's approach to responsible tourism and the environment.

The Group's policy on Responsible Tourism is available in full at www.mytravelgroup.com.

Community involvement

MyTravel is committed to being a positive influence within the communities in which it operates, principally by providing high quality holidays and excellent employment opportunities. However, we also take our broader responsibilities seriously, through charitable donations and local involvement with community projects.

MyTravel Northern Europe supports a village in Sri Lanka through the children's charity SOS Children's Villages and, following the South East Asian Tsunami in 2004, paid for the construction of two orphanages in Phuket, Thailand. MyTravel North America organises Company wide fundraising for the Canadian Cancer Society, Princess Margaret Cancer Hospital, Sick Children's Hospital and for the Children's Wish Foundation. MyTravel North America matches employee donations and encourages employees to participate in fundraising for disaster relief, most recently for the South East Asian Tsunami and Hurricanes Katrina and Wilma.

Over the past three years, MyTravel Airways in the UK has helped Cancer Research UK to raise over £524,000 through on-board foreign currency collections. In June 2006 Cancer Research UK awarded MyTravel a special commendation for its fundraising work.

In our destination communities we assist local charities through placement of charity collection boxes in many of our resorts.

From 2007, MyTravel UK will encourage all customers to make a modest financial contribution to the work of the Travel Foundation by enabling customers to make a voluntary donation of 40p per passenger at the point of booking.

In 2006 MyTravel UK raised £43,000 for Children Living With Metabolic Diseases (CLIMB) from the proceeds of on-board collections and staff fundraising activities, and £20,000 for the Travel Foundation from donations received through the sale of charity scratch cards.

Fundraising activities have also helped a number of children's charities, including Great Ormond Street Children's Hospital and Destination Florida, an organisation based in Manchester which helps sick children and their families to take holidays in Florida. A total of £74,000 has been raised for children's charities in the year.

This year MyTravel UK implemented a system through which employees can make tax-free donations direct from their salaries to the charity of their choice, using a specialist facilitator, Hands On Helping.

In total during the year the Group made or facilitated charitable contributions of £348,000.

Political donations

No company in the Group makes donations of any kind to any political party.

Staff and management

MyTravel is an employer of choice within the leisure and travel industry through the opportunities we create and the way that we support and manage our people. Group employment policies and practices are focused on creating a positive culture across all our businesses, where personal performance matters and employees are encouraged to develop and reach their full potential.

The Group employs approximately 13,000 people worldwide: 9,000 of these in the UK, 2,700 in Northern Europe and 1,000 in North America. The employment prospects of many more people also depend on the continued success of MyTravel.

In 2006 we introduced a new apprenticeship programme for six apprentices in our aircraft engineering base at Manchester. The programme is unique as it is fully aligned with our main supplier – Airbus Industrie. Our trainees spend their first year alongside those of Airbus developing skills and learning about manufacturing. Their second and third years are focused on MyTravel requirements. This programme underlines our long term commitment to our engineering business and our fleet, as well as addressing the current shortage of skilled aeronautical engineers within the airline industry.

Sustaining a successful organisation relies on the quality and performance of all our people to deliver our business objectives. This is achieved by having a skilled workforce encouraged and motivated by effective leadership at all levels of management.

Leadership
In 2005 we adopted new leadership behaviours within the Group. Since then every senior manager has taken part in the *'Discovery'* programme to learn about their own capability, culminating in an individual development plan to maximise their potential for the Group. This structured capability assessment supports each leader's personal development as well as the Group succession plan. The Company is satisfied that it has strong focus to ensure it has people in the right place for its growth and prosperity. Increasing attention is being placed on our emerging leadership talent and its development going forward.

We continue to develop the leadership skills of our senior management population through a new strategic partnership with Lancaster University Business School.

Having good leadership is also critical to us being able to attract, develop and retain talented people into the Group. Our recruitment programmes are highly successful at all levels, with, for example, some 66% of seasonal workers choosing to return to the Company each year. The majority (75%) are retained on flexible contracts allowing them to work elsewhere in the Group at other times.

Employee engagement
This year we have completed the first global employee survey for the Group and we are currently working on improving those areas highlighted for attention and focus from our people. All the results were communicated back to each employee. Motivation and positive attitude is encouraged through management briefings as well as a comprehensive internal communications strategy.

The Group also works closely with its European Works Council to discuss the interests of employees in the context of our business strategy and financial results. The Council met twice during 2006 with senior Directors of the Company in attendance.

Creating a shared understanding of the challenges and opportunities for the Company features highly in our Performance Management programmes. At all management levels, individuals can see how their role and personal objectives have a clear "line of sight" to those of our main Board Directors. We continue the drive towards a strong and fair performance culture which encourages innovation and achievement for all.

Underpinning our drive for performance and commitment from employees is our reward strategy. Our policy is to compensate everyone at a fair market level through a mixture of competitive base salaries, incentives and bonuses where appropriate, and a comprehensive range of benefits. These include a contributory pension scheme, medical insurance and travel concessions.

Diversity
MyTravel values the diversity of its workforce. We are an equal opportunities employer, and work hard to maintain an open and honest working environment, recognising the contribution everyone can make to our business. Career progression for existing or potential employees is assessed only on the grounds of ability and aptitude. In support of our diversity programme, we enforce a zero tolerance approach to bullying and harassment at work, in whatever form this may take.

We are committed to treating everyone fairly and reasonably according to their individual merits and abilities measured against our justifiable business needs. Therefore we will not tolerate any form of unlawful discrimination or harassment on grounds of race, colour, nationality, ethnic origin, national origin, sex, sexual orientation, gender re-assignment status, being married or a civil partner, religion, belief, disability or age.

MyTravel is committed to maintaining and developing a leading edge approach to the management and leadership of its people. We will continue to introduce policies and practices which encourage commitment, loyalty, quality and performance in all our staff.

For further information visit www.mytravelgroup.com where the following documents can be accessed:

- Employee Code of Ethics
- Health, Safety and Environmental Policy
- Responsible Tourism Policy
- Corporate Governance Compliance Statement (including the Terms of Reference of each Board Committee).

Independent Auditors' Report

To the members of MyTravel Group plc
We have audited the Group Financial Statements of MyTravel Group plc for the year ended 31 October 2006, which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement and the related notes 1 to 37. These Group Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

We have reported separately on the individual Company Financial Statements of MyTravel Group plc for the year ended 31 October 2006.

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 that we are required to state to them in an auditors' 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 Annual Report, the Remuneration Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the Group Financial Statements and the part of the Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group Financial Statements give a true and fair view and whether the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Remuneration Report described as having been audited has been 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 Group Financial Statements. The information given in the Directors' Report includes that specific information presented in the Financial Review and the Operating Review that is cross referred from the Enhanced business review section of the Directors' Report.

In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report for the above year as described in the contents section and consider whether it is consistent with the audited Group Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group Financial Statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Group Financial Statements and the part of the Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group 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 Group Financial Statements and the part of the Remuneration Report described as having been audited 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 Group Financial Statements and the part of the Remuneration Report described as having been audited.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 October 2006 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group Financial Statements.

Separate opinion in relation to IFRS

As explained in note 1 of the Group Financial Statements, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted for use by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. In our opinion the Financial Statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 October 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester
14 December 2006

Deloitte & Touche LLP

Group Income Statement

For the year ended 31 October

	note	2006 £m	2005 £m
Revenue	3	**2,796.5**	2,910.1
Cost of sales		**(2,380.1)**	(2,435.0)
Gross profit		**416.4**	475.1
Operating expenses	6	**(382.8)**	(447.2)
Profit from operations		**33.6**	27.9
Analysed between:			
Profit from operations before exceptional items	3	**61.6**	50.2
Exceptional items	4	**(28.0)**	(22.3)
		33.6	27.9
Share of results of associates and joint ventures	15	**0.1**	1.1
Disposal of items of property, plant and equipment	5	**11.8**	0.6
Loss on disposal of subsidiary and joint venture undertakings		**–**	(28.0)
Profit before finance items		**45.5**	1.6
Finance income	7	**9.6**	9.3
Finance costs	8	**(11.3)**	(28.3)
Profit/(loss) before tax	9	**43.8**	(17.4)
Tax	11	**(17.2)**	(23.3)
Profit/(loss) for the year		**26.6**	(40.7)
Attributable to:			
Equity holders of the parent		**26.0**	(40.9)
Minority interests		**0.6**	0.2
		26.6	(40.7)
Earnings/(loss) per share			
Basic	12	**5.67p**	(10.89)p
Diluted	12	**5.63p**	(10.89)p

All revenue and results arose from continuing operations.

Group Statement of Recognised Income and Expense

For the year ended 31 October

	note	2006 £m	2005 £m
Losses on cash flow hedges	28	**(41.2)**	–
Exchange differences on translation of foreign operations		**(3.5)**	10.0
Equity credit arising on restructuring of leases		**–**	28.2
Actuarial (losses)/gains on defined benefit pension schemes	34	**(1.4)**	0.1
Tax on items taken directly to equity	11	**0.3**	–
Net (expense)/income recognised directly in equity		**(45.8)**	38.3
Transfers			
Transferred to profit or loss on cash flow hedges	28	**5.7**	–
Transfer of translation losses to profit or loss on disposals	28	**0.4**	–
Profit/(loss) for the year		**26.6**	(40.7)
Total recognised income and expense for the year	26	**(13.1)**	(2.4)
Attributable to:			
Equity holders of the parent		**(13.7)**	(2.5)
Minority interests		**0.6**	0.1
		(13.1)	(2.4)
Change in accounting policy to adopt IAS 32 and 39			
Attributable to:			
Equity holders of the parent	37	**(7.1)**	

Group Balance Sheet

As at 31 October

	note	2006 £m	2005 £m
Non-current assets			
Goodwill	13	**132.3**	142.6
Other intangible assets	13	**11.3**	10.7
Property, plant and equipment	14	**297.1**	324.9
Investments	15	**8.7**	8.9
Deferred tax assets	24	**9.1**	6.5
Trade and other receivables	18	**49.5**	76.4
Derivative financial instruments	23	**0.7**	–
		508.7	570.0
Current assets			
Inventories	17	**8.0**	7.7
Tax assets		**3.2**	6.4
Trade and other receivables	18	**217.1**	207.0
Derivative financial instruments	23	**10.8**	–
Cash and cash equivalents	19	**204.7**	249.0
		443.8	470.1
Total assets		**952.5**	1,040.1
Current liabilities			
Trade and other payables	20	**(511.2)**	(590.4)
Short term borrowings	21	**–**	(2.5)
Current portion of long term borrowings	21	**(7.1)**	(4.5)
Obligations under finance leases	22	**(17.0)**	(23.0)
Tax liabilities		**(50.2)**	(51.5)
Revenue received in advance		**(261.0)**	(236.8)
Short term provisions	25	**(38.7)**	(36.2)
Derivative financial instruments	23	**(46.8)**	–
		(932.0)	(944.9)
Non-current liabilities			
Trade and other payables	20	**(24.1)**	(29.5)
Long term borrowings	21	**(50.8)**	(61.2)
Obligations under finance leases	22	**(60.1)**	(94.3)
Tax liabilities		**–**	(10.7)
Deferred tax liabilities	24	**(23.1)**	(13.8)
Long term provisions	25	**(55.3)**	(73.0)
Derivative financial instruments	23	**(6.1)**	–
		(219.5)	(282.5)
Total liabilities		**(1,151.5)**	(1,227.4)
Net liabilities		**(199.0)**	(187.3)
Equity			
Called-up share capital	27	**138.3**	136.4
Share premium account	26	**193.5**	734.2
Capital redemption reserve	26	**3.2**	3.2
Translation and hedging reserves	26/28	**(34.7)**	10.3
Retained earnings deficit	26	**(499.1)**	(1,072.4)
Investment in own shares	27	**(0.3)**	(0.3)
Equity attributable to equity holders of the parent		**(199.1)**	(188.6)
Minority interests	26	**0.1**	1.3
Total equity		**(199.0)**	(187.3)

These financial statements were approved by the Board of Directors on 14 December 2006.

Signed on behalf of the Board

J Allkins
Director

Group Cash Flow Statement

For the year ended 31 October

	note	2006 £m	2005 £m
Cash flows from operating activities			
Cash (used in)/generated by operations	29	**(9.9)**	41.1
Income taxes paid	29	**(17.7)**	(25.7)
Net cash (used in)/from operating activities	29	**(27.6)**	15.4
Investing activities			
Interest received		**10.2**	9.1
Dividends received from associates		**–**	0.1
Net cash balances disposed with subsidiary undertaking		**–**	(7.6)
Proceeds on disposal of joint ventures		**–**	27.3
Proceeds on disposal of property, plant and equipment		**28.2**	17.9
Purchase of shares from minority interests	16	**(8.1)**	–
Purchase of property, plant and equipment		**(23.8)**	(28.4)
Purchase of intangible assets		**(3.7)**	(5.4)
Acquisition of subsidiary	16	**3.6**	–
Net cash from investing activities		**6.4**	13.0
Financing activities			
Interest paid		**(5.7)**	(24.9)
Interest paid on finance leases		**(5.9)**	(6.1)
Dividends paid to minority shareholders		**(0.1)**	(0.1)
Repayment of borrowings		**(6.7)**	(22.7)
New bank loans raised		**1.2**	–
Repayment of obligations under finance leases		**(13.0)**	(24.7)
Proceeds from issue of ordinary shares		**9.5**	1.2
Expenses of issue of ordinary shares		**–**	(8.1)
Net cash used in financing activities		**(20.7)**	(85.4)
Net decrease in cash and cash equivalents		**(41.9)**	(57.0)
Cash and cash equivalents at beginning of year		**249.0**	305.2
Effect of foreign exchange rate changes		**(2.5)**	0.8
Change in accounting policy to adopt IAS 32 and 39		**0.1**	–
Cash and cash equivalents at end of year		**204.7**	249.0

Notes to the Financial Statements

1 General information

MyTravel Group plc is a limited liability company incorporated in England and Wales under the Companies Act 1985 and listed on the London Stock Exchange. The address of the registered office is Holiday House, Sandbrook Park, Sandbrook Way, Rochdale, Lancashire, OL11 1SA. The principal activities of the Group are discussed in the Operating Review and the Financial Review on pages 6 to 17.

These consolidated financial statements were approved for issue by the Board of Directors on 14 December 2006.

At the date of authorisation of these financial statements, the following Standards and Interpretations that are expected to impact on the Group but which have not been applied in these financial statements, were in issue but not yet effective.

With the exception of changes in disclosure, the Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Directors anticipate that the Group will adopt these standards and interpretations on their effective dates.

IAS 1 Amendment	Capital disclosures, effective for periods commencing on or after 1 January 2007.
IAS 39 Amendment	Cashflow hedge accounting of forecast intra group transactions, issued in April 2005, effective for periods commencing on or after 1 January 2006.
IAS 39 Amendment	The fair value option, issued in June 2005, effective for periods commencing on or after 1 January 2006.
IAS 39 Amendment	Financial guarantee contracts, issued in August 2005, effective for periods commencing on or after 1 January 2006.
IFRS 7	Financial instruments: Disclosures, issued in August 2005, effective for periods commencing on or after 1 January 2007.
IFRIC 4	Determining whether an arrangement contains a lease, issued in December 2004, effective for periods commencing on or after 1 January 2006.
IFRIC 8	Scope of IFRS 2, issued in January 2006, effective for periods commencing on or after 1 May 2006.
IFRIC 9	Reassessment of embedded derivatives, issued in March 2006, effective for periods commencing on or after 1 June 2006.

2 Accounting policies

The principal accounting policies applied in the preparation of the financial information presented in this document are set out below. These policies have been applied consistently to the periods presented and to the opening balance sheet prepared as at 1 November 2004, the Group's date of transition to IFRS (see below), unless otherwise stated.

Adoption of International Financial Reporting and Accounting Standards (IFRS)
This is the first set of consolidated financial statements prepared in accordance with IFRS adopted for use in the European Union.

MyTravel Group plc consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) until 31 October 2005. UK GAAP differs in some areas from IFRS. In preparing the MyTravel Group plc 2006 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with the recognition and measurement criteria of IFRS. The comparative figures for 2005 are restated to reflect these adjustments.

The Group has adopted Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 November 2005.

Individual standards and interpretations have to be adopted by the European Commission (EC) and the process leads to a delay between the issue and adoption of new standards and interpretations and in some cases amendments by the EC.

The individual Company financial statements of MyTravel Group plc for the year ended 31 October 2006, prepared in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice, are presented on pages 81 to 87.

First-time adoption of IFRS
For the year ended 31 October 2006 the Group has applied the principles set out in IFRS 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1), in preparing these financial statements.

IFRS 1 sets out the procedures that must be followed when adopting IFRS for the first time as the basis for preparing the Group's consolidated financial statements. The Group is required to establish its IFRS accounting policies and, in general, apply these retrospectively to determine the IFRS opening balance sheet at the date of transition, 1 November 2004. IFRS 1 provides a number of optional exemptions to this general principle. The most significant of these are set out below, together with a description, in each case, of the exemption adopted by the Group.

- **Business combinations – IFRS 3 Business Combinations**
  The Group has elected not to restate the accounting for business combinations completed before the date of transition.

- **Employee benefits – IAS 19 Employee Benefits**
  The Group has elected to recognise all cumulative actuarial gains and losses relating to the Group's defined benefit pension schemes at the date of transition. In subsequent periods, all actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense (SORIE) in accordance with the amendment to IAS 19, issued on 16 December 2004.

2 Accounting policies continued

- **Share-based payments – IFRS 2 Share-based Payments**
  The Group has elected to apply IFRS 2 to all share-based awards and options granted post 7 November 2002 but not vested at 1 November 2004.

- **Financial instruments – IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement**
  The Group has elected to adopt IAS 32 and IAS 39 from 1 November 2005. Therefore the comparative financial information in respect of financial instruments set out in these financial statements is presented in accordance with UK GAAP.

- **Cumulative translation differences**
  The Group has elected that the cumulative translation differences that existed for all foreign operations under UK GAAP will be deemed to be zero at the date of transition to IFRS, 1 November 2004.

The disclosures required by IFRS 1, including the reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net income and cash flows, are provided in note 36.

Basis of accounting
These financial statements have been prepared in accordance with IFRS and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to groups reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

1 Basis of consolidation
The Group's financial statements consolidate those of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the purchase method.

Where audited financial accounts are not coterminous with those of the Group, the financial information has been derived from the last audited accounts available and unaudited management accounts for the period up to the Company's balance sheet date.

2 Associates and joint ventures
Entities, other than subsidiaries, over which the Group exerts significant influence but not control or joint control are associates. Entities which the Group jointly controls with one or more other party under a contractual arrangement are joint ventures.

The Group's share of the results of associates and joint ventures is included in the Group income statement using the equity accounting method. Investments in associates and joint ventures are included in the Group balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the entity, after adjustment for goodwill.

3 Intangible assets – goodwill
Goodwill arising on an acquisition represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset, and is reviewed for impairment at least annually. Any impairment is recognised immediately in the Group's income statement and is not subsequently reversed.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

4 Intangible assets – other
Intangible assets, other than goodwill, are carried on the Group's balance sheet at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over the asset's useful life. This is between three and four years in the case of capitalised computer software. In the case of each acquired intangible asset, the useful life is assessed separately according to the particular circumstances.

5 Property, plant and equipment
Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment.

Where costs are incurred as part of the start-up or commissioning of an item of property, plant or equipment, and that item is available for use but incapable of operating in the manner intended by management without such a start-up or commissioning period, then such costs are included within the cost of the item. Costs that are not directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management are charged to the income statement as incurred.

Depreciation on property, plant and equipment, other than freehold land, upon which no depreciation is provided, is calculated on a straight-line basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Freehold buildings	40 years
Short leasehold properties	Period of lease
Aircraft	20 years
Aircraft spares	15 years
Other fixed assets	3 to 15 years

2 Accounting policies continued

6 Aircraft overhaul and maintenance costs

The cost of major overhauls of owned and finance leased engines, auxiliary power units and airframes is capitalised and then amortised over between two and ten years until the next scheduled major overhaul. Provision is made for the future costs of major overhauls of leased engines, auxiliary power units and airframes by making appropriate charges to the income statement, calculated by reference to the number of hours flown during the period, as a consequence of legal obligations placed upon the Group under the terms of certain of the operating leases. Where the terms of operating leases do not include conditions in respect of major overhauls, then the cost of such overhauls is capitalised and then depreciated to realisable value over between two and ten years (or the remainder of the lease period if shorter) until the next scheduled major overhaul.

7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents purchase price. Net realisable value represents the estimated selling price less all costs to be incurred in marketing, selling and distribution.

8 Revenue recognition and associated costs

Revenue represents the aggregate amount of gross revenue receivable from inclusive tours, travel agency commissions receivable and other services supplied to customers in the ordinary course of business. Revenue and direct expenses relating to inclusive tours arranged by the Group's leisure travel providers, including travel agency commission, insurance and other incentives, are taken to the income statement on holiday departure. Revenue relating to travel agency commission on third party leisure travel products is recognised when earned, which is on receipt of the full payment from the customer. Other revenue and associated expenses are taken to the income statement as earned or incurred. Revenue and expenses exclude intra-group transactions.

9 Income statement presentation

Profit or loss from operations includes the results from operating activities of the Group, before its share of the results of associates and joint ventures. It is stated before the results of investing activities such as the disposal of subsidiaries or joint ventures and the disposal of items of property, plant and equipment.

Exceptional items are items that are unusual because of their size, nature or incidence and which the Group's management consider should be disclosed separately to enable a full understanding of the Group's results.

10 Tax

Tax represents the sum of tax currently payable and deferred tax. Tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case the associated tax is also recognised directly in equity.

Tax currently payable is provided on taxable profits based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Provision is made for deferred tax so as to recognise all temporary differences which have originated but not reversed at the balance sheet date that result in an obligation to pay more tax, or a right to pay less tax, in the future, except as set out below. This is calculated on a non-discounted basis by reference to the average tax rates that are expected to apply in the relevant jurisdictions and for the periods in which the temporary differences are expected to reverse.

Deferred tax assets are assessed at each balance sheet date and are only recognised to the extent that their recovery against future taxable profits is probable. Deferred tax liabilities are recognised for the retained earnings of overseas subsidiaries, joint ventures and associates unless the Group is able to control the timing of the distribution of those earnings and it is probable that they will not be distributed in the foreseeable future.

11 Pensions

Pension costs charged against profits in respect of the Group's defined contribution schemes represent the amount of the contributions payable to the schemes in respect of the accounting period.

The Group also operates a number of defined benefit schemes, principally outside the UK. The pension liabilities recognised on the balance sheet in respect of these schemes represent the difference between the present value of the Group's obligations under the schemes and the fair value of those schemes' assets. Actuarial gains or losses are recognised in the period in which they arise within the statement of recognised income and expense. Other movements in the pension liability are recognised in the income statement.

12 Foreign currency

Average exchange rates are used to translate the results of all subsidiaries, associates and joint ventures that have a functional currency other than sterling. The balance sheets of such entities are translated at period end exchange rates. The resulting exchange differences are dealt with through a separate component of equity.

Transactions in currencies other than the functional currency of an entity are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the period end are translated at period end exchange rates. The resulting exchange gain or loss is dealt with in the income statement.

13 Leases

Leases under which substantially all of the risk and rewards of ownership are transferred to the Group are finance leases; all other leases are operating leases.

Assets held under finance leases are recognised within property, plant and equipment on the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

2 Accounting policies continued

14 Derivative financial instruments
Derivatives are recognised at their fair value. When a derivative does not qualify for hedge accounting as a cash flow hedge, changes in fair value are recognised immediately in the income statement. When a derivative qualifies for hedge accounting as a cash flow hedge, changes in fair value that are determined to be an effective hedge are recognised directly in the hedging reserve. Any ineffective portion of the change in fair value is recognised immediately in the income statement.

If a hedged transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or carrying amount of the asset or liability. For all other cash flow hedges, the associated cumulative gain or loss is removed from the hedging reserve and recognised in the income statement in the same period or periods during which the hedged or forecast transaction affects profit or loss.

15 Share-based payments
The Group issues share options to certain employees as part of their total remuneration. The fair values of the share options are calculated at the date of grant, using the Black-Scholes option pricing model. These fair values are charged to the income statement on a straight-line basis over the expected vesting period of the options, with a corresponding increase in equity reserves.

16 Insurance contracts and reinsurance contracts
Premiums written relate to business incepted during the year, together with any differences between the booked premiums for prior years and those previously accrued, less cancellations. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. Premiums are shown after the deduction of commission and premium taxes where relevant.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported.

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as receivables from reinsurers. The Group assesses its reinsurance assets for impairment on an annual basis.

Receivables and payables are recognised when due. These include amounts due to and from insurance policyholders.

17 Critical judgements in applying the Group's accounting policies
In the process of applying the Group's accounting policies, described above, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

Residual values of tangible fixed assets
Judgements have been made in respect of the residual values of aircraft included in property, plant and equipment. Those judgements determine the amount of depreciation charged in the income statement.

Recoverable amounts of goodwill
Judgements have been made in respect of the amounts of future operating cash flows to be generated by certain of the Group's businesses in order to assess whether there has been any impairment of the amounts included in the balance sheet for goodwill in relation to those businesses.

Special purpose entities
The nature of the relationship with certain special purpose entities involved in leasing aircraft to the Group shows that they should be interpreted as controlled by the Group, and therefore consolidated, even though the Group has no direct or indirect equity interest in those entities.

18 Key sources of estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £132.3m after an impairment loss of £9.2m was recognised during 2006. Details of the impairment loss are provided in note 13.

Recoverable amounts of deposits and prepayments
Estimates have been made in respect of the volumes of future trading with hoteliers and the credit-worthiness of those hoteliers in order to assess the recoverable amounts of deposits and prepayments made to those hoteliers.

Aircraft maintenance provisions
Provisions for the cost of maintaining leased aircraft and spares are based on forecast aircraft utilisation, estimates of future maintenance costs and planned rollover and renewal of the aircraft fleet.

Tax
The Group operates in many tax regimes and the tax implications of its operations are complex. It can take several years for tax liabilities to be agreed with the relevant authorities. Tax assets and liabilities represent management's estimates of tax that will be payable or recoverable in the future and may be dependent on estimates of future profitability.

3 Segmental information

For management purposes, the Group is currently organised into three geographic operating divisions: MyTravel UK, MyTravel Northern Europe and MyTravel North America. These divisions are the basis on which the Group reports its primary segment information.

Within these divisions, businesses are classified as Risk or Non-Risk as defined on pages 2 and 3 and this analysis is the basis for the secondary segmental information.

Segmental information for these activities is presented below.

Primary segments – geographic analysis

	UK		Northern Europe		North America		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Revenue								
Segment sales	**1,543.4**	1,727.5	**793.0**	793.5	**468.1**	397.9	**2,804.5**	2,918.9
Inter-segment sales	**(2.5)**	(4.4)	**(5.5)**	(4.4)	–	–	**(8.0)**	(8.8)
Total revenue	**1,540.9**	1,723.1	**787.5**	789.1	**468.1**	397.9	**2,796.5**	2,910.1
Result								
Profit from operations before exceptional items	**(12.9)**	(27.4)	**64.1**	60.7	**10.4**	16.9	**61.6**	50.2
Exceptional items	**(21.1)**	(22.3)	**(1.1)**	–	**(5.8)**	–	**(28.0)**	(22.3)
Segment result	**(34.0)**	(49.7)	**63.0**	60.7	**4.6**	16.9	**33.6**	27.9
Share of results of associates and joint ventures							**0.1**	1.1
Disposal of items of property, plant and equipment							**11.8**	0.6
Loss on disposal of subsidiary and joint venture undertakings							**–**	(28.0)
Profit before finance items							**45.5**	1.6
Finance income							**9.6**	9.3
Finance costs							**(11.3)**	(28.3)
Profit/(loss) before tax							**43.8**	(17.4)
Tax							**(17.2)**	(23.3)
Profit/(loss) for the year							**26.6**	(40.7)
Other information								
Capital additions	**22.3**	39.4	**4.6**	2.5	**1.4**	1.1	**28.3**	43.0
Depreciation	**31.5**	44.4	**5.7**	6.0	**0.6**	0.9	**37.8**	51.3
Amortisation of intangible assets	**3.6**	8.1	**0.2**	0.3	**0.5**	0.4	**4.3**	8.8
Impairment of goodwill	**4.1**	5.8	**–**	–	**5.1**	–	**9.2**	5.8
Impairment of fixed assets	**0.9**	4.8	**–**	–	**–**	–	**0.9**	4.8
Balance sheet								
Assets								
Segment assets	**922.9**	997.9	**503.3**	486.9	**293.4**	268.9	**1,719.6**	1,753.7
Inter-segment eliminations							**(788.0)**	(735.3)
							931.6	1,018.4
Investments in associates							**8.6**	8.8
Tax and deferred tax assets							**12.3**	12.9
Total assets							**952.5**	1,040.1
Liabilities								
Segment liabilities	**1,062.5**	1,002.8	**309.4**	354.2	**359.3**	344.2	**1,731.2**	1,701.2
Inter-segment eliminations							**(788.0)**	(735.3)
							943.2	965.9
Tax and deferred tax liabilities							**73.3**	76.0
Borrowings							**135.0**	185.5
Total liabilities							**1,151.5**	1,227.4

3 Segmental information continued

Primary segments – geographic analysis continued
Inter-segment sales are charged at prevailing market prices.

Segment assets consist primarily of goodwill, other intangible assets, property, plant and equipment, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise trade and other payables, revenue received in advance and provisions.

Capital additions comprise additions to property, plant and equipment (note 14) and intangible assets (note 13).

Secondary segments – business segment analysis

		Revenue		Segment result		Segment assets		Capital additions	
		2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Risk	Mass Market	**1,701.6**	1,820.1	**43.8**	20.4	**585.8**	630.4	**26.5**	41.5
	Focused	**721.0**	698.3	**(9.3)**	6.0	**102.0**	85.5	**1.1**	0.4
Total Risk		**2,422.6**	2,518.4	**34.5**	26.4	**687.8**	715.9	**27.6**	41.9
Non-Risk		**373.9**	391.7	**3.1**	11.2	**158.9**	146.8	**0.7**	1.1
Central costs		**–**	–	**(4.0)**	(9.7)	**84.9**	155.7	**–**	–
Group		**2,796.5**	2,910.1	**33.6**	27.9	**931.6**	1,018.4	**28.3**	43.0

Exceptional items			
Risk	Mass Market	**(17.8)**	(18.6)
	Focused	**–**	–
Total Risk		**(17.8)**	(18.6)
Non-Risk		**(10.2)**	(2.3)
Central costs		**–**	(1.4)
Group		**(28.0)**	(22.3)

Profit from operations before exceptional items			
Risk	Mass Market	**61.6**	39.0
	Focused	**(9.3)**	6.0
Total Risk		**52.3**	45.0
Non-Risk		**13.3**	13.5
Central costs		**(4.0)**	(8.3)
Group		**61.6**	50.2

4 Exceptional items

	2006 £m	2005 £m
Property costs, redundancy and other costs incurred in reorganising the Group's UK businesses	**(17.0)**	(16.4)
Property costs, redundancy and other costs incurred in reorganising the Northern Europe retail estate	**(1.1)**	–
Property costs, redundancy and other costs incurred in reorganising the Canadian retail estate	**(0.7)**	–
Adjustment to the carrying value of goodwill as part of a balance sheet review	**(9.2)**	(5.8)
Restructuring of aircraft leases	**–**	(1.6)
Termination of cruise operations	**–**	1.5
Group	**(28.0)**	(22.3)

Exceptional items have been included in the income statement as follows:		
Cost of sales	**(0.5)**	3.8
Operating expenses	**(27.5)**	(26.1)
	(28.0)	(22.3)

5 Disposal of items of property, plant and equipment

	2006 £m	2005 £m
UK	**1.6**	0.4
Northern Europe	**10.2**	0.2
	11.8	0.6

The gain on disposal of items of property, plant and equipment in Northern Europe in 2006 includes £7.9m in respect of a freehold hotel property in Majorca and £2.2m relating to the sale of land in Crete. The gain in the UK segment includes £1.3m in respect of the disposal of a freehold timeshare property in Gran Canaria.

6 Operating expenses

	2006 £m	2005 £m
Selling and marketing costs	**159.6**	159.5
Administrative expenses	**223.2**	287.7
	382.8	447.2

7 Finance income

	2006 £m	2005 £m
Bank interest receivable	**9.6**	9.3

8 *Finance costs*

	2006 £m	2005 £m
Interest payable on – bank borrowings	**(4.2)**	(9.5)
– other borrowings	**–**	1.8
– *undated preference shares*	**–**	(2.3)
Finance costs in respect of finance leases	**(5.9)**	(5.7)
Interest on overdue tax	**(1.1)**	–
Other finance costs – discounting charges	**(0.1)**	(0.2)
	(11.3)	(15.9)
Exceptional finance costs	**–**	(12.4)
	(11.3)	(28.3)

Interest payable on other borrowings in 2005 included the release of an accrual of £2.9m for interest on the Convertible Bonds which was waived on the completion of the Consensual Restructuring.

The exceptional finance costs in 2005 related to costs incurred in the refinancing and restructuring of the Group.

9 Profit/(loss) before tax

Profit/(loss) before tax for the year has been arrived at after charging/(crediting):

	2006 £m	2005 £m
Net foreign exchange losses/(gains)	**6.0**	(1.6)
Depreciation of property, plant and equipment – owned assets	**27.6**	37.7
– held under finance leases	**10.2**	13.6
Profit on disposal of property, plant and equipment (see note 5)	**(11.8)**	(0.6)
Amortisation of intangible assets included in operating expenses	**4.3**	8.8
Cost of inventories recognised as expense	**24.6**	25.4
Loss on disposal of subsidiary undertakings	**–**	5.2
Loss on disposal of joint venture undertakings	**–**	22.8
Operating lease rentals payable – hire of aircraft and aircraft spares	**63.4**	78.5
– other	**59.0**	64.4
Exceptional items (see note 4)	**28.0**	22.3
Including: Impairment of goodwill	**9.2**	5.8
Impairment of property, plant and equipment	**0.9**	4.8
Staff costs (see note 10)	**328.2**	368.2
Auditors' remuneration (see below)	**2.1**	2.2

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its UK subsidiary undertakings in respect of non-audit services were £1.0m (2005: £0.9m).

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2006 £m	2005 £m
Fees payable to the Company's auditors for the audit of the Company's financial statements	**0.1**	0.2
Fees payable to the Company's auditors and their associates for other services:		
the audit of the Company's subsidiaries pursuant to legislation	**0.8**	1.0
other services pursuant to legislation	**0.2**	0.2
tax services	**0.7**	0.8
services relating to corporate finance transactions	**0.1**	–
all other services	**0.2**	–
	2.1	2.2

9 Profit/(loss) before tax continued

Fees paid to the Company's auditors, Deloitte & Touche LLP, and their associates for services other than the statutory audit of the Company are not disclosed in subsidiaries' accounts since the consolidated accounts of the subsidiaries' parent, MyTravel Group plc, are required to disclose non-audit fees on a consolidated basis.

A description of the work of the Audit and Risk Management Committee is set out in the Corporate Governance report on page 25 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

10 Staff costs

Staff costs during the year were as follows:

	2006 £m	2005 £m
Wages and salaries	**278.1**	317.0
Social security costs	**34.8**	35.8
Other pension costs (see note 34)	**15.3**	15.4
	328.2	368.2

The average number of employees of the Group during the year was:

	2006 Number	2005 Number
UK	**9,125**	10,473
Northern Europe	**2,739**	2,985
North America	**1,083**	1,139
	12,947	14,597

Disclosures of Directors' remuneration, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 32 to 34 within the Remuneration Report and form part of these audited financial statements.

11 Tax

		2006 £m	2005 £m
Analysis of tax charge in the year			
Current tax			
UK	corporation tax charge for the year	**–**	–
	adjustments in respect of prior periods	**–**	10.0
		–	10.0
Overseas	corporation tax charge for the year	**20.2**	23.9
	adjustments in respect of prior periods	**(10.2)**	2.9
		10.0	26.8
Total current tax		**10.0**	36.8
Deferred tax			
	tax credit for the year	**(0.8)**	(3.2)
	adjustments in respect of prior periods	**8.0**	(10.3)
Total deferred tax		**7.2**	(13.5)
Total tax charge		**17.2**	23.3

Tax reconciliation		
Profit/(loss) before tax	**43.8**	(17.4)
Expected tax charge/(credit) at the UK corporation tax rate of 30% (2005: 30%)	**13.1**	(5.2)
Tax effect of share of results of associates and joint ventures	**0.1**	(0.3)
Expenses not deductible for tax purposes	**1.0**	14.9
Lower rates of tax suffered on overseas earnings	**(16.6)**	(9.1)
Losses for which tax relief is not available	**24.4**	23.2
Utilisation of tax losses not previously recognised	**(2.6)**	(2.8)
Adjustments in respect of prior periods	**(2.2)**	2.6
Tax charge	**17.2**	23.3

In addition to the amount charged to the income statement, deferred tax relating to actuarial losses on pension schemes of £0.3m (2005: £nil) has been credited directly in equity.

UK corporation tax is calculated at 30% (2005: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Surplus losses of £802.0m (2005: £624.0m) are available in the UK for offset against future profits.

12 Earnings/(loss) per share

The calculations for earnings/(loss) per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown excludes 0.09m shares held by the employee share ownership trusts (2005: 0.09m).

Basic and diluted earnings/(loss) per share	**2006 £m**	2005 £m
Net profit/(loss) attributable to equity holders of the parent	**26.0**	(40.9)

	Millions	Millions
Weighted average number of shares for basic earnings/(loss) per share	**458.4**	374.3
*Effect of dilutive potential ordinary shares – share options**	**3.2**	–
Weighted average number of shares for diluted earnings/(loss) per share	**461.6**	374.3

*As the effect of the adjustment would be to reduce basic loss per share in 2005, the share options were treated as being anti-dilutive. The average number of dilutive potential shares in 2005 was 1.8m.

The outstanding warrants described in note 27 are anti-dilutive.

	Pence	Pence
Basic earnings/(loss) per share	**5.67**	(10.89)
Diluted earnings/(loss) per share	**5.63**	(10.89)

Earnings per share pre-exceptional items	***£m***	*£m*
Net profit/(loss) attributable to equity holders of the parent	**26.0**	(40.9)
Exceptional items		
Included in profit from operations – Group (note 4)	**28.0**	22.3
– associated undertakings	**–**	1.4
Exceptional finance charges	**–**	12.4
Profit on disposal of property, plant and equipment (note 5)	**(11.8)**	(0.6)
Loss on disposal of subsidiary and joint venture undertakings	**–**	28.0
Tax relating to the exceptional items	**–**	–
Net profit before exceptional items	**42.2**	22.6

	Millions	Millions
Weighted average number of shares for basic earnings per share	**458.4**	374.3
Effect of dilutive potential ordinary shares – share options	**3.2**	1.8
Weighted average number of shares for diluted earnings per share	**461.6**	376.1

	Pence	Pence
Basic earnings per share pre-exceptional items	**9.19**	**6.08**
Diluted earnings per share pre-exceptional items	**9.13**	**6.05**

13 Intangible assets

Goodwill

Cost	£m
At 1 November 2004	223.7
Elimination of amortisation on adoption of IFRS 3	(77.5)
Exchange differences	2.2
At 31 October 2005	148.4
Acquisitions (note 16)	3.2
Exchange differences	(4.3)
At 31 October 2006	**147.3**
Accumulated impairment losses	
At 1 November 2004	–
Impairment losses for the year	5.8
At 31 October 2005	5.8
Impairment losses for the year	9.2
At 31 October 2006	**15.0**
Carrying amount	
At 31 October 2006	**132.3**
At 31 October 2005	142.6

The carrying value of goodwill analysed by business segment is as follows:

	2006 £m	2005 £m
UK	**51.9**	55.2
Northern Europe	**7.1**	6.9
North America	**73.3**	80.5
	132.3	142.6

In accordance with accounting standards, the Group annually tests the carrying value of goodwill for impairment. At 31 October 2006, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the net present value of future cash flows derived from those assets, using cash flow projections in respect of periods to 2023 discounted at 9% (2005: 9%).

The key assumptions used in the value in use calculations are those regarding the discount rates, revenue and cost growth rates and the level of capital expenditure required during the period. The Group prepares cash flow forecasts derived from the most recently approved annual budgets and plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset. Cash flow forecasts for years beyond 2009 are extrapolated based on estimated growth rates which do not exceed the average long term growth rates for the relevant markets.

The impairment losses for the year of £9.2m (2005: £5.8m) are included in operating expenses in the income statement.

13 Intangible assets continued

Other intangible assets

	Computer software		Other	
	Purchased £m	Internally generated £m	Purchased £m	Total £m
Cost				
At 1 November 2004	34.6	2.5	–	37.1
Additions	5.0	0.4	–	5.4
Exchange differences	–	–	–	–
Disposals	(12.0)	(0.1)	–	(12.1)
At 31 October 2005	27.6	2.8	–	30.4
Additions	3.1	0.6	–	3.7
Acquisitions (note 16)	–	–	1.2	1.2
Exchange differences	(0.1)	–	–	(0.1)
Disposals	(0.1)	–	–	(0.1)
At 31 October 2006	**30.5**	**3.4**	**1.2**	**35.1**
Amortisation				
At 1 November 2004	22.7	0.2	–	22.9
Charge for the year	8.3	0.5	–	8.8
Exchange differences	–	–	–	–
Disposals	(11.9)	(0.1)	–	(12.0)
At 31 October 2005	19.1	0.6	–	19.7
Charge for the year	3.6	0.4	0.3	4.3
Exchange differences	(0.1)	–	–	(0.1)
Disposals	(0.1)	–	–	(0.1)
At 31 October 2006	***22.5***	***1.0***	***0.3***	***23.8***
Carrying amount				
At 31 October 2006	***8.0***	***2.4***	***0.9***	***11.3***
At 31 October 2005	8.5	2.2	–	10.7

Computer software is amortised on a straight-line basis over its estimated useful life of between three and four years.

Other intangible assets include £1.0m in respect of a non-compete agreement entered into on the acquisition of the minority interest in MyTravel Aircraft Engineering Limited. This is being amortised over the period covered by the agreement, being three years ending 29 December 2008.

Other intangible assets also include £0.2m in respect of brand name, order backlog and a non-compete agreement relating to the acquisition of Encore Cruises. These items are being amortised over periods of 20 years, 15 months and one year from 31 July 2006 respectively.

The carrying amount of computer software includes £0.2m (2005: £1.5m) in respect of assets held under finance leases.

14 Property, plant and equipment

	Freehold land and buildings £m	Short leaseholds £m	Aircraft and aircraft spares £m	Other fixed assets £m	Total £m
Cost					
At 1 November 2004	69.6	53.5	465.7	149.7	738.5
Additions	1.0	2.1	24.1	10.4	37.6
Exchange differences	(2.0)	(0.5)	4.0	(1.2)	0.3
Disposals	(1.0)	(2.2)	(52.0)	(15.1)	(70.3)
Disposal of subsidiary undertakings	–	(0.2)	–	(2.4)	(2.6)
At 31 October 2005	67.6	52.7	441.8	141.4	703.5
Additions	2.7	2.0	6.4	13.5	24.6
Acquisitions (note 16)	–	2.3	–	1.0	3.3
Exchange differences	(0.5)	–	(8.5)	(0.9)	(9.9)
Disposals	(17.9)	(13.7)	(18.3)	(35.9)	(85.8)
At 31 October 2006	**51.9**	**43.3**	**421.4**	**119.1**	**635.7**
Accumulated depreciation and impairment					
At 1 November 2004	30.3	33.7	208.3	110.0	382.3
Charge for the year	2.4	4.5	30.6	13.8	51.3
Impairment losses	–	3.2	(0.1)	1.7	4.8
Exchange differences	(0.7)	(0.4)	1.1	(0.8)	(0.8)
Disposals	–	(2.2)	(40.4)	(14.1)	(56.7)
Disposal of subsidiary undertakings	–	(0.1)	–	(2.2)	(2.3)
At 31 October 2005	32.0	38.7	199.5	108.4	378.6
Charge for the year	2.1	3.0	21.6	11.1	37.8
Impairment losses	–	–	–	0.9	0.9
Exchange differences	(0.3)	0.1	(3.5)	(0.7)	(4.4)
Disposals	(13.5)	(13.1)	(13.5)	(34.2)	(74.3)
At 31 October 2006	**20.3**	**28.7**	**204.1**	**85.5**	**338.6**
Carrying amount					
At 31 October 2006	**31.6**	**14.6**	**217.3**	**33.6**	**297.1**
At 31 October 2005	35.6	14.0	242.3	33.0	324.9

Freehold land with a cost of £5.3m (2005: £6.7m) has not been depreciated.

The cost of property, plant and equipment stated above includes capitalised interest of £4.2m (2005: £5.8m).

The carrying amount of aircraft and aircraft spares includes £114.6m (2005: £125.9m) in respect of assets held under finance leases.

Capital commitments	2006 £m	2005 £m
Capital expenditure contracted but not provided for in the accounts	**6.1**	2.5

15 Non-current asset investments

	Associated undertakings £m	Other investments £m	Total £m
Cost			
At 1 November 2005	20.5	9.7	30.2
Share of result of associate after tax	0.1	–	0.1
Exchange differences	(0.3)	–	(0.3)
At 31 October 2006	**20.3**	**9.7**	**30.0**
Amounts written off or provided			
At 1 November 2005	11.7	9.6	21.3
Impairment losses	–	–	–
At 31 October 2006	**11.7**	**9.6**	**21.3**
Carrying amount			
At 31 October 2006	**8.6**	**0.1**	**8.7**
At 31 October 2005	8.8	0.1	8.9

Associated undertakings

The investment in associated undertakings at 31 October 2006 represents a 19.99% interest in Aqua Sol, a hotel group based in Cyprus. The interest consists of 51,574,200 of the existing shares in Aqua Sol. This investment is regarded as an associated undertaking and is accounted for under the equity method as the Group is represented on the Board of Directors of Aqua Sol and, therefore, has significant influence over that undertaking.

The market value of the Group's investment at 31 October 2006 was £4.9m (2005: £4.3m).

Summarised financial information in respect of the associated undertaking is as follows:

	2006 £m	2005 £m
Total assets	**151.5**	164.9
Total liabilities	**(50.1)**	(62.5)
Net assets	**101.4**	102.4
Group's share of net assets	**20.3**	20.5
Revenue	**35.1**	38.3
Profit for the year	**0.5**	3.2
Group's share of associate's profit for the year	**0.1**	0.7

The financial statements of Aqua Sol are made up to 31 December each year. This is the financial reporting date of Aqua Sol. For the purposes of applying the equity method of accounting for 2006, the financial statements of Aqua Sol for the year ended 31 December 2005 have been used together with management accounts for the period from 1 January 2006 to 31 October 2006.

Share of results of associates and joint ventures

	2006	2005		
	Associates £m	*Total £m*	*Associates £m*	*Joint ventures £m*
Revenue	**7.0**	26.5	7.7	18.8
Profit from operations before exceptional items	**0.8**	3.6	1.3	2.3
Exceptional items – impairment of investment	–	(1.4)	(1.4)	–
Finance costs	**(0.5)**	(1.8)	(0.6)	(1.2)
Profit/(loss) before tax	**0.3**	0.4	(0.7)	1.1
Tax	**(0.2)**	0.7	–	0.7
Group's share of results of associates and joint ventures	**0.1**	1.1	(0.7)	1.8

Other investments

Other investments include £8.2m in respect of the Group's investment, as a member of the Airline Group, in the UK National Air Traffic Services (NATS). This investment was fully provided against in 2003.

16 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest, is given in note 16 to the Company's separate financial statements. All of the subsidiary undertakings have been consolidated in the Group accounts.

Interpretation guidance included within SIC Interpretation 12 "Consolidation – Special Purpose Entities" indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing arrangements with the Group, should be interpreted as being controlled by the Group, and therefore subject to consolidation, even though the Group has no direct or indirect equity interest in those entities. As a consequence, the Group has consolidated two SPEs that own two aircraft operated by the Group on operating leases.

Acquisitions

On 29 December 2005, the Group acquired the 51% of the issued share capital of MyTravel Aircraft Engineering Limited that it did not already own, along with certain leasehold property interests and plant and equipment owned by the other shareholder. That company has also entered into a non-compete agreement with the Group for a period of three years. This transaction has been accounted for by the purchase method of accounting. The principal activities of MyTravel Aircraft Engineering Limited are the fleet airworthiness management and maintenance of the Group's aircraft and it was previously consolidated as a subsidiary in the Group's financial statements on the basis of management control.

Details of the net assets acquired are as follows:

		£m
Property, plant and equipment		3.3
Intangible assets – non-compete agreement		1.0
Minority interests		(0.2)
		4.1
Goodwill		1.2
Total consideration		5.3
Satisfied by:	Cash	5.0
	Directly attributable costs	0.3
		5.3

The purchase price of each component of the acquisition is considered to represent its fair value.

In addition, following the sale of a freehold hotel in Majorca by the Group's Northern Europe division, the Group acquired the 25% minority interest in the subsidiary that part-owned that hotel at a cost of £2.8m in cash.

On 31 July 2006, the Group acquired the business of Encore Cruises, a Canadian distributor of cruise holidays, from First Choice Holidays PLC. The purchase price was C$3.75m in cash.

The transaction has been accounted for by the purchase method of accounting.

Details of the net assets acquired are as follows:

		Book value £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment		0.5	(0.5)	–
Intangible assets – brand name, order backlog and non-compete agreement		0.2	–	0.2
Trade and other receivables		9.8	(0.3)	9.5
Cash and cash equivalents		5.5	–	5.5
Trade and other payables		(15.3)	–	(15.3)
		0.7	(0.8)	(0.1)
Goodwill				2.0
Total consideration				1.9
Satisfied by:	Cash			1.8
	Directly attributable costs			0.1
				1.9

The net cash inflow arising on the acquisition of Encore Cruises was:

	£m
Cash consideration	(1.9)
Cash and cash equivalents acquired	5.5
	3.6

The goodwill arising on the acquisition of Encore Cruises is attributable to the anticipated future operating synergies from the combination with the Group's existing cruise holiday distribution business in Canada.

Encore Cruises contributed £1.0m of revenue and £nil to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first day of the financial year, Group revenue for the year would have been £2,799.0m and Group profit before tax would have been £43.9m.

17 Inventories

	2006 £m	2005 £m
Goods held for resale	**5.7**	5.5
Consumables	**2.3**	2.2
	8.0	7.7

18 Trade and other receivables

	2006 £m	2005 £m
Non-current assets		
Deposits and prepayments	**37.8**	63.1
Pension assets	**0.3**	0.3
Other receivables	**11.4**	13.0
	49.5	76.4
Current assets		
Trade receivables	**84.9**	68.3
Amounts owed by associated undertakings	**0.3**	–
Deposits and prepayments	**108.3**	103.6
Other receivables	**23.6**	35.1
	217.1	207.0

The average credit period taken on invoicing of leisure travel services is 80 days (2005: 75 days). No interest is charged on the receivables. The credit risk in respect of direct receivables from customers is limited as payment is required in full before the services are provided. In the case of travel services sold by third party agents, the credit risk depends on the creditworthiness of those third parties, but this risk is also limited because of the relatively short period of credit.

Deposits and prepayments include amounts paid in advance to suppliers of hotel and other services in order to guarantee the provision of those supplies and historically have covered periods from 1 to 36 months in advance. The Group's current policy is that deposits and prepayments will normally only be made for periods of up to 12 months in advance. There is a credit risk in respect of the continued operation of those suppliers during those periods.

The amounts presented in the balance sheet are net of allowances for doubtful receivables of £3.9m (2005: £4.8m). An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

19 Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**147.6**	176.6
Term deposits with a maturity of less than three months	**57.1**	72.4
	204.7	249.0

Included within the above balances is an amount of £66.8m (2005: £53.2m) held within escrow accounts in the United States and Canada in accordance with local regulatory requirements. Also included within the above balances is an amount of £55.4m (2005: £56.0m) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company. These balances are considered to be restricted, however, regulatory approval is being sought for a loan of £11.6m and a dividend of £3.2m to be paid in cash from White Horse Insurance Ireland Limited to MyTravel Group plc.

The Directors consider that the carrying amount of these assets approximates their fair value.

20 Trade and other payables

	2006 £m	2005 £m
Current liabilities		
Trade payables	**275.3**	278.3
Amounts owed to associated undertakings	**0.8**	1.0
Social security and other taxes	**8.7**	9.3
Accruals and deferred income	**194.9**	262.5
Other payables	**31.5**	39.3
	511.2	590.4
Non-current liabilities		
Trade payables	**–**	0.1
Accruals and deferred income	**20.4**	26.0
Other payables	**3.7**	3.4
	24.1	29.5

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

The average credit period taken for trade purchases is 57 days (2005: 58 days).

21 Borrowings

	2006 £m	2005 £m
Short term borrowings		
Unsecured bank loans	**–**	2.3
Unsecured loan notes	**–**	0.2
	–	2.5
Long term borrowings		
Bank loans – repayable within one year	**7.1**	4.5
– repayable between one and two years	**10.3**	7.6
– repayable between two and five years	**39.7**	53.6
– repayable after five years	**0.8**	–
	57.9	65.7
Less: amounts due for settlement within one year shown under current liabilities	**(7.1)**	(4.5)
Amounts due for settlement after one year	**50.8**	61.2
The currency analysis of long term borrowings is:		
US dollar	**56.7**	65.7
Danish krone	**1.2**	–
	57.9	65.7

The US dollar bank loans relate to the financing of two aircraft owned by special purpose entities consolidated in the Group's financial statements in accordance with SIC 12 (see note 16). The loans are secured by a charge on those aircraft. The loans carry interest at a rate of 0.475% over US six month LIBOR, fixed at six monthly intervals. The average effective interest rate for the year to 31 October 2006 approximates 5.75% (2005: 6.53%). The loans are repayable in instalments by the end of June 2009.

The Danish Krone loan represents a mortgage loan to finance a building extension. The loan was taken out for a period of 15 years in August 2006 at a fixed rate of interest of 4.98% per annum and is secured on the property in Denmark.

The Directors consider that the carrying amount of the Group's bank loans approximates their fair value.

Borrowing facilities
As at 31 October 2006, the Group had undrawn committed guarantee and bonding facilities of £58.3m (2005: £66.8m).

22 Obligations under finance leases

	Minimum lease payments 2006 £m	Minimum lease payments 2005 £m	Present value of minimum lease payments 2006 £m	Present value of minimum lease payments 2005 £m
Amounts payable under finance leases:				
Within one year	**21.3**	29.1	**17.0**	23.0
Between one and two years	**17.3**	41.6	**13.8**	33.8
Between two and five years	**49.0**	66.2	**46.3**	60.5
	87.6	136.9	**77.1**	117.3
Less: future finance charges	**(10.5)**	(19.6)	**–**	–
Present value of lease obligations	**77.1**	117.3	**77.1**	117.3
Less: amounts due for settlement within one year shown under current liabilities			**(17.0)**	(23.0)
Amounts due for settlement after one year			**60.1**	94.3

The currency analysis of amounts payable under finance leases is:

	2006 £m	2005 £m
Sterling	**–**	0.5
US dollar	**77.1**	116.8
	77.1	117.3

Finance leases principally relate to aircraft and aircraft spares.

The average lease term at inception was 12.9 years and the average remaining lease term is 2.7 years (2005: 2.5 years). For the year ended 31 October 2006 the average effective borrowing rate was 6.92% (2005: 4.72%). Interest rates on £9.2m of US dollar lease obligations are fixed at 6.85% (2005: £22.0m at 5.93%) and the interest rate on the £0.5m of sterling lease obligations at 31 October 2005 was fixed at 6.3%. Interest rates on the balance of the lease obligations are floating and are fixed quarterly or six monthly in advance based on US LIBOR. No arrangements have been entered into for contingent rental payments.

The Directors consider that the carrying amount of the Group's finance lease obligations approximates their fair value.

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

Sub-lease rentals receivable
During the year, two aircraft (2005: five aircraft) held under finance leases were sub-let on operating leases for the whole or part of the year. Details of income receivable under operating sub-leases are provided in note 31.

23 Derivative financial instruments

A summary of the Group's policies in relation to the use of financial instruments is set out on page 17.

Adoption of IAS 32 and 39
IAS 32 and 39 were adopted as accounting policies with effect from 1 November 2005. The effect of the adoption is to separate the fair value of the forward foreign currency and fuel purchase contracts from the associated underlying cash flows which were previously recorded at the forward contract rates under UK GAAP.

Under the exemption permitted within IFRS 1, the comparative periods have not been restated. Comparative periods are disclosed and measured based on UK GAAP as at 31 October 2005. Under UK GAAP, at 31 October 2005 the carrying amounts of financial assets and liabilities and the related derivatives were accounted for using hedge accounting, whereas under IFRS they are disclosed separately at fair value.

At the balance sheet date, total notional amounts of outstanding forward contracts and other derivative instruments that the Group has committed to are as follows:

	2006 £m	2005 £m
Foreign exchange	**1,625.4**	993.3
Fuel	**193.5**	25.1
Interest rate swaps	**–**	89.7
Total	**1,818.9**	1,108.1

23 Derivative financial instruments continued

The fair values of derivative financial instruments at 31 October 2006 were:

	Currency contracts £m	Fuel contracts £m	Total £m
At 31 October 2005 as previously reported	–	–	–
Impact of IAS 32 and 39 (note 37)	*(6.4)*	*(0.2)*	*(6.6)*
Restated opening balance at 1 November 2005	(6.4)	(0.2)	(6.6)
Movement in fair value during the year	(15.7)	(19.1)	(34.8)
At 31 October 2006	**(22.1)**	**(19.3)**	**(41.4)**

Non-current assets	0.7
Current assets	10.8
Current liabilities	(46.8)
Non-current liabilities	*(6.1)*
	(41.4)

The Group uses derivative instruments to hedge significant future transactions and cash flows. The Group enters into a variety of foreign currency forward contracts, options and other financial instruments approved by the Board in the management of its exchange rate exposures. The instruments used are primarily denominated in the currencies of the Group's principal markets. The Group also enters into fuel commodity swaps and other instruments approved by the Board for hedging its exposure to fuel costs for the seasons on sale. Fuel costs are denominated in US dollars.

These arrangements are designed to address significant exchange and fuel cost exposures for a period of 12 to 18 months in advance of a season.

The fair values of the Group's derivative financial instruments set out above have been determined by reference to prices available from the markets in which the instruments are traded.

The fair value of derivatives designated and effective as cash flow hedges deferred in equity at 31 October 2006 was £(41.9)m (note 28).

Disclosures in respect of financial instruments are given under the requirements of IAS 32. The Group has taken advantage of the exemption from applying that standard retrospectively in respect of the year ended 31 October 2005 and, accordingly, the following additional disclosures are given in respect of the comparatives under the applicable UK GAAP standard, FRS 13.

Currency analysis of financial assets, other than short term debtors such as trade debtors, accrued income and deposits:

Currency	Floating rate £m	Fixed rate £m	Non-interest bearing equity investments £m	Total 2005 £m
Sterling	105.8	–	–	105.8
US dollar	32.1	4.3	–	36.4
Euro	19.7	–	–	19.7
Swedish krona	23.6	–	0.1	23.7
Norwegian krone	3.6	–	–	3.6
Danish krone	1.3	–	–	1.3
Cyprus pounds	0.4	–	–	0.4
Canadian dollar	61.2	–	–	61.2
Other	1.3	–	–	1.3
Total	249.0	4.3	0.1	253.4

Financial assets comprised cash and deposits of £249.0m, fixed asset investments other than associates of £0.1m, and other debtors due in more than one year of £4.3m.

Interest on floating rate bank deposits was based on the relevant national inter-bank rate and was fixed in advance for periods normally up to three months. The weighted average rate and period for fixed rate deposits was 3.9% and 26 days. The weighted average rate for floating rate deposits was 2.93%.

Currency exposures

The main functional currencies of the Group are sterling, US dollar and euro. The following analysis of net monetary assets and liabilities shows the Group's currency exposures after the effects of forward contracts and other derivatives used to manage currency exposure. The amounts shown represent the transactional (or non-structural) exposures that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or "functional") currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations.

Net monetary (liabilities)/assets	US dollar £m	Euro £m	Total 2005 £m
Functional currency			
Sterling	(123.1)	8.3	(114.8)

23 Derivative financial instruments continued

Unrecognised gains and losses on hedges

Gains and losses on currency, interest and fuel hedging instruments used for hedging purposes were not recognised until the exposure that was being hedged was itself recognised. A summary of such gains and losses and movements therein is as follows:

	2005		
	Gains £m	Losses £m	Net £m
Unrecognised gains and losses on hedges at start of year	5.1	(7.1)	(2.0)
Gains and losses recognised in the year arising in previous periods	(5.1)	5.4	0.3
Gains and loses arising in previous periods not recognised in the year	–	(1.7)	(1.7)
Gains and losses not recognised in the year arising in the year	10.5	(12.5)	(2.0)
Unrecognised gains and losses on hedges at year end	*10.5*	*(14.2)*	*(3.7)*
Of which:			
Gains and losses expected to be recognised in the following year	10.5	(14.2)	(3.7)
Gains and losses expected to be recognised in subsequent years	–	–	–
	10.5	(14.2)	(3.7)

Management of insurance and financial risk

Incidental to its main business, the Group, through its subsidiary White Horse Insurance Ireland Limited, issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Business written includes standard commercial risks for the Group and travel insurance for both Group and non-Group customers.

The principal nature of travel insurance risks is one of short term, low value and high volume. Underwriting performance is monitored on an ongoing basis and pricing reviewed annually for each individual contract. Exposure is capped by specific limits within the insurance policy and by using reinsurance contracts for any claims in excess of these retention limits. Commercial policies with the Group are subject to policy excesses and single event and aggregate limits.

Insurance risk is spread across several European countries where the Group operates including the UK, Ireland and Scandinavia.

When estimating the cost of claims outstanding at the year end, the principal assumption underlying the estimates is the Group's past development pattern. This includes assumptions in respect of historic claims costs, average claims handling expenses and market developments. The Group uses an independent actuary to review its liabilities to ensure that the carrying values are adequate. Any changes to these variables are not expected to have a material effect on the Group financial statements.

The Group operates a reinsurance policy approved by the Board which ensures that reinsurers have a financial stability rating of B+ (A M Best) or above. The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to the credit risk of its reinsurance receivables.

24 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation £m	Other *short term* timing differences £m	Tax losses £m	Total £m
At 1 November 2004	21.9	4.5	(5.5)	20.9
(Credit)/charge to income	(16.6)	1.2	1.9	(13.5)
Exchange differences	(0.1)	–	–	(0.1)
At 31 October 2005	5.2	5.7	(3.6)	7.3
(Credit)/charge to income	(10.7)	15.0	2.9	7.2
Credit to equity	–	(0.3)	–	(0.3)
Exchange differences	(0.4)	0.2	–	(0.2)
At 31 October 2006	**(5.9)**	**20.6**	**(0.7)**	**14.0**

24 Deferred tax continued

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 £m	2005 £m
Deferred tax liabilities	**23.1**	13.8
Deferred tax assets	**(9.1)**	(6.5)
	14.0	7.3

At the balance sheet date, the Group had unused tax losses of £802.0m (2005: £624.0m) and other short term timing differences of £3.7m (2005: £142.7m) available for offset against future profits. Deferred tax assets have only been recognised where there is sufficient probability that there will be future taxable profits against which the assets may be recovered. No deferred tax asset has been recognised in respect of tax losses of £800.0m (2005: £618.3m) and short term timing differences of £53.1m (2005: £179.0m) due to the unpredictability of future profit streams.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which no deferred tax liabilities have been recognised was £24.7m (2005: £13.2m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

25 Provisions

	Pension provisions £m	Aircraft maintenance provisions £m	Other provisions £m	Total £m
At 1 November 2005	5.2	79.6	24.4	109.2
Impact of IAS 32 and 39 (note 37)	0.2	0.7	0.2	1.1
Restated opening balance at 1 November 2005	5.4	80.3	24.6	110.3
Additional provisions in year	0.4	18.1	17.1	35.6
Unused amounts released in year	–	(5.5)	(0.5)	(6.0)
Unwinding of discount	–	–	0.1	0.1
Utilisation of provisions	(0.3)	(27.3)	(15.9)	(43.5)
Actuarial losses taken directly to equity	1.2	–	–	1.2
Exchange differences	0.1	(3.6)	(0.2)	(3.7)
At 31 October 2006	**6.8**	**62.0**	**25.2**	**94.0**
Included in current liabilities	0.1	17.6	21.0	38.7
Included in non-current liabilities	6.7	44.4	4.2	55.3
	6.8	62.0	25.2	94.0

The pension provisions relate to deficits on defined benefit pension schemes in Sweden and the UK. Further information in respect of these schemes is given in note 34.

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft.

Other provisions relate to provisions for onerous leases and future obligations, including those arising as a result of reorganisation and restructuring plans that are irrevocably committed.

26 Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Hedging and translation reserves £m	Capital redemption and other reserves £m	Retained earnings/ (deficit) £m	Attributable to equity holders of the parent £m	Minority interest £m	Total £m
At 1 November 2004	54.4	114.2	–	2.9	(1,113.0)	(941.5)	1.4	(940.1)
Total recognised income and expense for the year	–	–	10.3	–	(12.8)	(2.5)	0.1	(2.4)
Equity credit in respect of share-based payments	–	–	–	–	4.4	4.4	–	4.4
Issue of equity shares net of expenses	131.0	620.0	–	–	–	751.0	–	751.0
Capital reduction – cancellation of deferred shares	(49.0)	–	–	–	49.0	–	–	–
Acquisition of minority interest	–	–	–	–	–	–	(0.1)	(0.1)
Dividends paid	–	–	–	–	–	–	(0.1)	(0.1)
Net change directly in equity	82.0	620.0	–	–	53.4	755.4	(0.2)	755.2
Total movements	82.0	620.0	10.3	–	40.6	752.9	(0.1)	752.8
At 31 October 2005	136.4	734.2	10.3	2.9	(1,072.4)	(188.6)	1.3	(187.3)
Impact of adoption of IAS 32 and 39 (note 37)	–	–	(6.4)	–	(0.7)	(7.1)	–	(7.1)
Restated opening balances at 1 November 2005	136.4	734.2	3.9	2.9	(1,073.1)	(195.7)	1.3	(194.4)
Total recognised income and expense for the year	–	–	(38.6)	–	24.9	(13.7)	0.6	(13.1)
Equity credit in respect of share-based payments	–	–	–	–	0.8	0.8	–	0.8
Issue of equity shares net of expenses	1.9	7.6	–	–	–	9.5	–	9.5
Capital reduction	–	(548.3)	–	–	548.3	–	–	–
Acquisition of minority interests	–	–	–	–	–	–	(2.3)	(2.3)
Capital contribution from minority shareholder	–	–	–	–	–	–	0.6	0.6
Dividends paid	–	–	–	–	–	–	(0.1)	(0.1)
Net change directly in equity	1.9	(540.7)	–	–	549.1	10.3	(1.8)	8.5
Total movements	1.9	(540.7)	(38.6)	–	574.0	(3.4)	(1.2)	(4.6)
At 31 October 2006	**138.3**	**193.5**	**(34.7)**	**2.9**	**(499.1)**	**(199.1)**	**0.1**	**(199.0)**

Capital redemption and other reserves comprises the capital redemption reserve of £3.2m less £0.3m in respect of own shares held by employee share ownership trusts. The capital redemption reserve was created in 1998 when the Company redeemed its remaining convertible cumulative preference shares of 20p each and represents the nominal value of the shares cancelled.

By a special resolution of the members of the Company passed on 26 May 2006, the share premium account was reduced by £548,316,000 in order to eliminate the deficit on the Company's accumulated retained earnings. The reduction in the share premium account was confirmed by the High Court on 28 June 2006.

Details of changes in hedging and translation reserves are set out in note 28.

27 Called-up share capital

	2006 £m	2005 £m
Authorised		
700,000,000 (2005: 502,787,608) ordinary shares of 30p each	**210.0**	150.8
Allotted, called-up and fully paid		
461,067,136 (2005: 454,538,433) ordinary shares of 30p each	**138.3**	136.4

On 13 March 2006, the authorised share capital of the Company was increased to £210,000,000 by the creation of 197,212,392 ordinary shares of 30p each.

During the year, 6,528,703 ordinary shares of 30p each were allotted on the exercise of options under the MyTravel Group Management Incentive Plan for an aggregate cash consideration of £9,552,643 including share premium of £7,594,032.

27 Called-up share capital *continued*

Contingent rights to the allotment of shares
No share options were granted during the year.

On 21 October 2003, the Company issued non-transferable and transferable warrants to subscribe for ordinary shares in the capital of the Company to bondholders in consideration for their approval of proposals to modify the terms of the 7% subordinated bonds due 2007. These bonds were converted into new ordinary shares of the Company during 2005 pursuant to the Consensual Restructuring effected on 31 December 2004. At 31 October 2006 there were 60,571,252 (2005: 60,571,252) transferable warrants and 5,163,284 (2005: 5,163,284) non-transferable warrants outstanding, exercisable at a price of 300p per share for every 30 warrants held. No warrants were exercised during the year.

At 31 October 2006, the following options to subscribe for ordinary shares of 30p each were outstanding:

Date of grant	Subscription price per share	Management Incentive Plan 2005 Series 1	Management Incentive Plan 2005 Series 2	SAYE scheme
21 June 2001	£70.26	–	–	1,506
25 June 2002	£37.68	–	–	31,382
31 January 2005	£1.44	4,110,780	5,418,337	–
29 July 2005	£1.96	257,094	480,297	–

Options are normally exercisable in the following periods:

Management Incentive Plan 2005	Options are classified as either a series 1 or series 2 award. Series 1 awards (which may not exceed 25% of the total awards to a participant) shall vest provided a participant continues in employment with a Group company as to 33.3% on or after the second anniversary of the initial grant, as to 33.3% on or after the third anniversary of the initial grant and as to 33.4% on or after the fourth anniversary of the initial grant. Series 2 awards shall vest on the Company's market capitalisation attaining, for a continuous period of 30 days, thresholds set by the Management Development and Remuneration Committee. The options are exercisable from the date that the option holder is informed that the performance condition has been satisfied until the tenth anniversary of the grant of the option.
Savings-related	Options are exercisable between three years and three years and six months or between five years and five years and six months following the commencement date of the savings contract dependent on whether a three year or a five year savings contract is selected.

Own shares held in trust
Shares of the Company are held under trust by Airtours Trustee Limited as part of a long term incentive plan for employees, excluding Directors, and by Mourant & Co Trustees Limited on trust for the benefit of employees and former employees of Group companies to be used as part of future incentive arrangements. In accordance with IFRS, these are classified as Treasury Shares and are included in other reserves in the balance sheet.

The number of shares held at 31 October 2006 by Airtours Trustee Limited and Mourant & Co Trustees Limited was 34,829 (2005: 34,829) and 53,750 (2005: 53,750) respectively. These shares had a nominal value of £0.3m (2005: £0.3m) and a market value of £0.2m (2005: £0.2m) at that date. Shares held by the trusts have been excluded from the weighted average number of shares used in the calculation of earnings per share.

28 Hedging and translation reserves

	Hedging reserve £m	Translation reserve £m	Total £m
At 1 November 2004	–	–	–
Exchange differences on translation of overseas operations	–	10.3	10.3
At 31 October 2005	–	10.3	10.3
Impact of adoption of IAS 32 and 39 (note 37)	(6.4)	–	(6.4)
Restated opening balances at 1 November 2005	(6.4)	10.3	3.9
Exchange differences on translation of overseas operations	–	(3.5)	(3.5)
Increase in fair value of hedging derivatives	(41.2)	–	(41.2)
Transfer to income	5.7	0.4	6.1
At 31 October 2006	**(41.9)**	**7.2**	**(34.7)**

Under UK GAAP, the Group did not maintain a separate translation reserve and all exchange differences on translation of overseas operations were recorded in retained earnings. The Group has taken advantage of the transitional arrangements in IFRS 1 to deem the cumulative translation differences that existed at the date of transition to IFRS, 1 November 2004, to be zero.

IAS 32 and 39 were adopted as accounting policies with effect from 1 November 2005. Under the exemption permitted within IFRS 1, the comparative periods have not been restated.

29 Notes to the cash flow statement

	2006 £m	2005 £m
Profit from operations	**33.6**	27.9
Adjustments for:		
Loss on derivatives	**(1.9)**	–
Depreciation of property, plant and equipment	**37.8**	51.3
Impairment of property, plant and equipment	**0.9**	4.8
Amortisation of intangible assets	**4.3**	8.8
Impairment of goodwill	**9.2**	5.8
Share-based payments	**0.8**	4.4
Other non-cash items	**(6.6)**	1.5
Decrease in provisions	**(13.9)**	(2.1)
Operating cash flows before movements in working capital	**64.2**	102.4
Increase in inventories	**(0.6)**	(1.2)
(Increase)/decrease in receivables	**(5.0)**	55.1
Decrease in payables	**(68.5)**	(115.2)
Cash (used in)/generated by operations	**(9.9)**	41.1
Income taxes paid	**(17.7)**	(25.7)
Net cash (used in)/from operating activities	**(27.6)**	15.4

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

30 Net funds

	UK GAAP at 31 October 2005 £m	Adjustment on transition to IFRS £m	IFRS at 31 October 2005 £m	Adoption of IAS 39 at 1 November 2005 £m	Cash flow £m	Other non-cash changes £m	Exchange movements £m	At 31 October 2006 £m
Cash and cash equivalents	249.0	–	249.0	0.1	(41.9)	–	(2.5)	**204.7**
Current debt								
Short term borrowings	(2.5)	–	(2.5)	–	2.5	–	–	–
Current portion of long term borrowings	–	(4.5)	(4.5)	–	4.2	(7.1)	0.3	**(7.1)**
Obligations under finance leases	(23.0)	–	(23.0)	(0.3)	13.0	(8.0)	1.3	**(17.0)**
	(25.5)	(4.5)	(30.0)	(0.3)	19.7	(15.1)	1.6	**(24.1)**
Non-current debt								
Long term borrowings	–	(61.2)	(61.2)	–	(1.2)	7.1	4.5	**(50.8)**
Obligations under finance leases	(94.3)	–	(94.3)	–	–	29.3	4.9	**(60.1)**
	(94.3)	(61.2)	(155.5)	–	(1.2)	36.4	9.4	**(110.9)**
Total debt	(119.8)	(65.7)	(185.5)	(0.3)	18.5	21.3	11.0	**(135.0)**
Net funds	129.2	(65.7)	63.5	(0.2)	(23.4)	21.3	8.5	**69.7**

31 Operating lease arrangements

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Property and other 2006 £m	**Aircraft and aircraft spares 2006 £m**	**Total 2006 £m**	Property and other 2005 £m	Aircraft and aircraft spares 2005 £m	Total 2005 £m
Within one year	**58.5**	**57.7**	**116.2**	66.2	69.6	135.8
Later than one and less than five years	**191.5**	**185.8**	**377.3**	210.7	238.4	449.1
After five years	**200.1**	**25.3**	**225.4**	240.3	44.0	284.3
	450.1	**268.8**	**718.9**	517.2	352.0	869.2

Operating lease payments principally relate to rentals payable for the Group's retail shop properties and for aircraft and spares used by the Group's airlines. Shop leases are typically negotiated for an average term of five years and aircraft leases for an average term of ten years.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Property 2006 £m	**Aircraft 2006 £m**	**Total 2006 £m**	Property 2005 £m	Aircraft 2005 £m	Total 2005 £m
Within one year	**0.9**	**4.5**	**5.4**	0.9	3.9	4.8
Later than one and less than five years	**1.9**	**1.2**	**3.1**	2.2	3.9	6.1
After five years	**0.7**	**–**	**0.7**	0.8	–	0.8
	3.5	**5.7**	**9.2**	3.9	7.8	11.7
Rental income earned during the year	**1.3**	**8.9**	**10.2**	0.9	11.0	11.9

Certain of the Group's retail and other properties and aircraft that are not being used in the Group's businesses are sub-let on the best terms available in the market for varying periods, with an average future committed period of 3.4 years for property and 9.5 months for aircraft.

32 Contingent liabilities

At 31 October 2006, there were contingent liabilities under counter indemnities given to the Group's bankers and other third parties in the normal course of business in respect of CAA and other similar bonds, leases for aircraft and aircraft spares and other guarantees amounting to £526.2m (2005: £529.0m).

33 Share-based payments

Management Incentive Plan 2005

The Company operates a Management Incentive Plan under which Executive Directors and senior management of the Company and its subsidiaries are granted options to subscribe for new ordinary shares of the Company. Options are exercisable at a price equal to the average quoted market price of the Company's shares at the date of grant. Details of the terms on which these options can be exercised and the periods during which they can be exercised are set out in note 27. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options granted post 7 November 2002 and the exercise price of those options are as follows:

	Number of options	Exercise price £
31 January 2005	16,623,336	1.44
29 July 2005	1,115,852	1.96
	17,739,188	

SECTION 01

SECTION 02

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33 Share-based payments continued

Movements in share options granted post 7 November 2002 and outstanding at the balance sheet date, together with their weighted average exercise price, were as follows:

	2006		2005	
	Number of shares	**Weighted average exercise price (£)**	Number of shares	Weighted average exercise price (£)
Outstanding at the beginning of the year	**16,919,269**	**1.47**	–	–
Granted during the year	–	–	17,739,188	1.47
Forfeited during the year	**(124,058)**	**1.81**	–	–
Exercised during the year	**(6,528,703)**	**1.46**	(819,919)	1.44
Outstanding at the end of the year	**10,266,508**	**1.48**	16,919,269	1.47
Exercisable at the end of the year	**5,898,634**	**1.48**	12,066,039	1.46

The weighted average share price at the date of exercise for share options exercised during the year was £2.31 (2005: £2.00).

The non-vested options outstanding at 31 October 2006 had a weighted average remaining contractual life of 15.39 months.

The estimated fair value of the options granted is as follows:

	£m
31 January 2005	5.7
29 July 2005	0.5
	6.2

The Group has used the Black-Scholes option pricing model to determine the expense to be recognised in respect of share options.

The inputs into the Black-Scholes model are as follows:

	2006	2005
Weighted average share price and exercise price (£)	**1.47**	1.47
Expected volatility (%)	**35**	35
Expected life (years)	**2.2**	2.2
Risk free rate (%)	**4.67**	4.67
Expected dividends	**Nil**	Nil

Expected volatility was determined by reference to market expectations for the leisure travel industry. The recent history of the Group has been such that the historical volatility of the Company's share price was not considered to be a reliable basis for estimating future volatility. The expected life used in the model is a weighted average based on management's best estimate, taking into account the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised total expenses of £0.8m (2005: £4.4m) related to equity-settled share-based payment transactions during the year.

34 Retirement benefit schemes

Defined contribution schemes
Employees of the Company and various of its UK subsidiary undertakings participate in the Company's defined contribution pension scheme. The total pension charge for the year amounted to £7.6m (2005: £7.2m). No amounts were outstanding at either year end.

Other defined contribution schemes exist in the Group, together with liabilities in respect of insured benefits relating to workers' compensation arrangements. The total charge for the year for these schemes amounted to £7.1m (2005: £7.6m).

The assets of these schemes are held separately from those of the Group in funds under the control of trustees.

Defined benefit schemes
The Group also operates a number of defined benefit pension schemes. These are not significant to the Group. Details of the schemes are set out below.

In the UK, Bridge Travel Services Limited operates a funded defined benefit scheme which is closed to new employees. The pension cost is assessed in accordance with the advice of qualified actuaries using the attained age method. The last full valuation of this scheme was at 30 November 2004, at which time the actuarial report shows the market value of the assets in the scheme totalled £3.3m. There was a deficit in the scheme of £1.3m on a continuing basis and the scheme was 111% funded on the basis of the Minimum Funding Requirement of the Pensions Act 1995. The recommended future employer's contribution rate was 45% of pensionable salaries.

34 Retirement benefit schemes continued

This valuation has been updated to 31 October 2006 for the purposes of IAS 19 and the updated valuation has been used in the disclosures given below. The key assumptions used in the updated valuation were:

	2006 %	2005 %
Discount rate for scheme liabilities	**5.0**	5.0
Inflation rate	**3.4**	2.9
Expected return on scheme assets	**4.5**	4.5
Expected rate of salary increases	**3.9**	3.4
Future pension increases	**5.0**	5.0

	£m	£m
Actuarial value of scheme liabilities	**5.2**	4.7
Fair value of scheme assets	**3.8**	3.5

In Sweden, the Group operates a number of unfunded defined benefit plans under the ITP scheme. There were no separate funds or assets to support the unfunded schemes until 1 January 2004. Since then, the Group has insured the plans with a Swedish multi-employer scheme in the form of deferred annuities. Current service costs are covered by fixed premiums and obligations in respect of past service are being transferred to the scheme over a number of years. Pension obligations in respect of the untransferred period of past service are calculated based on actuarial assumptions by qualified actuaries using the projected unit method and the obligations are included in the balance sheet at their discounted present value. Valuations for the schemes are made at 31 December each year. For the purposes of the disclosures given below, a summary independent valuation of past service obligations was carried out as at 31 October 2006. The key assumptions used in this valuation were:

	2006 %	2005 %
Discount rate for scheme liabilities	**4.0**	5.0
Inflation rate	**2.0**	2.0

	£m	£m
Actuarial value of scheme liabilities	**5.4**	4.2
Fair value of scheme assets	**–**	–

In Norway, the Group also operates a number of defined benefit schemes. The assets of the schemes comprise investments in with-profits funds administered by insurance companies. Actuarial valuations in respect of these schemes are performed annually. The last valuation was performed as at 31 December 2005, and has been updated to 31 October 2006 for the purposes of the disclosures given below. The key assumptions used in the updated valuation were:

	2006 %	2005 %
Discount rate for scheme liabilities	**4.5**	5.0
Inflation rate	**2.5**	2.5
Expected return on scheme assets	**5.5**	6.0
Expected rate of salary increases	**3.0**	3.0
Future pension increases	**2.5**	2.5

	£m	£m
Actuarial value of scheme liabilities	**3.6**	4.1
Fair value of scheme assets	**3.9**	4.4

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	2006 £m	2005 £m
Current service cost	**0.2**	0.4
Settlements	**–**	(0.1)
Expected return on scheme assets	**(0.4)**	(0.4)
Interest cost on scheme liabilities	**0.8**	0.7
Total included in administrative expenses	**0.6**	0.6

Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was £(0.2)m (2005: £0.3m).

34 Retirement benefit schemes continued

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes is as follows:

	2006 £m	2005 £m
Present value of defined benefit obligations	**(14.2)**	(13.0)
Fair value of scheme assets	**7.7**	7.9
Scheme deficits recognised in the balance sheet	**(6.5)**	(5.1)
This amount is presented as follows:		
Non-current assets	**0.3**	0.3
Non-current liabilities	**(6.8)**	(5.4)
	(6.5)	(5.1)

The contributions made during the year totalled £0.5m (2005: £0.4m) and a further £0.1m (2005: £1.0m) was paid out in connection with the transfer of past service obligations to the Swedish multi-employer scheme.

The Group does not expect the level of total contributions to vary materially in the foreseeable future.

Changes in the present value of defined benefit obligations were as follows:

	2006 £m	2005 £m
At the beginning of the year	**13.0**	13.9
Current service cost	**0.2**	0.4
Interest cost	**0.8**	0.7
Settlements	**(0.1)**	(1.3)
Benefits paid	**(0.1)**	(0.2)
Actuarial losses/(gains)	**0.8**	(0.2)
Exchange difference	**(0.4)**	(0.3)
At the end of the year	**14.2**	13.0

Changes in the fair value of scheme assets were as follows:

	2006 £m	2005 £m
At the beginning of the year	**7.9**	7.4
Expected return on scheme assets	**0.4**	0.4
Contributions from the sponsoring companies	**0.5**	0.4
Settlements	**–**	(0.2)
Benefits paid	**(0.1)**	(0.1)
Actuarial losses	**(0.6)**	(0.1)
Exchange difference	**(0.4)**	0.1
At the end of the year	**7.7**	7.9

The fair value of scheme assets at the balance sheet date is analysed as follows:

	2006 £m	2005 £m
Equities	**1.0**	1.0
With profits deferred annuities	**3.8**	3.5
Bonds	**2.1**	2.9
Investment property and cash	**0.8**	0.5
At the end of the year	**7.7**	7.9

The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group.

The expected rates of return on scheme assets have been calculated as the weighted average rate of return on each asset class. The return on each asset class is taken as the market rate of return.

The cumulative net actuarial losses since 1 November 2004 recognised in the statement of recognised income and expense at 31 October 2006 were £1.3m (2005: net actuarial gains of £0.1m).

The history of experience gains and losses of the schemes for the current and prior year is as follows:

	2006 £m	2005 £m
Present value of defined benefit obligations	**14.2**	13.0
Fair value of scheme assets	**(7.7)**	(7.9)
Scheme deficits	**6.5**	5.1
Experience adjustments on scheme liabilities	**(0.8)**	0.2
Experience adjustments on scheme assets	**(0.6)**	(0.1)

The Group has taken advantage of the exemption in IFRS 1 to disclose the above information for earlier periods as the amounts are determined prospectively from the 2005 reporting period.

35 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associated and joint venture undertakings are disclosed below.

During 2005, the Group disposed of its interests in its joint venture undertakings Tenerife Sol S.A. and Hotetur Club,S.L. Details of transactions with those entities below relate to the period up to disposal.

Trading transactions
During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Aqua Sol		Hotetur	Tenerife Sol
	2006 £m	2005 £m	2005 £m	2005 £m
Purchases of hotel accommodation	**6.9**	7.7	5.1	1.5
Management fee income	**–**	–	0.4	–
Management and administrative expenses	**–**	–	0.5	–
Amounts owed by related parties	**0.3**	–	–	–
Amounts owed to related parties	**0.8**	1.0	–	–

The amount owed by Aqua Sol to MyTravel Group represents a prepayment of hotel accommodation costs of £0.8m against which there is a provision of £0.5m following a reassessment of likely usage.

As a result of the disposal of the Group's interest in Hotetur Club,S.L. in 2005, there is a balance due from Hotetur to the Group which is being amortised against future purchases of hotel accommodation. At 31 October 2006, £5.4m was outstanding (2005: £8.3m).

Purchases of hotel accommodation were made at market prices discounted to reflect volume purchase and the relationship between the parties. Outstanding amounts will normally be settled by cash payment.

Remuneration of key management personnel
The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration Report on pages 32 to 34.

	2006 £m	2005 £m
Short term employee benefits	**2.7**	5.4
Post-employment benefits	**0.7**	0.5
Other long term benefits	**–**	0.1
Share-based payments	**0.3**	1.3
	3.7	7.3

36 Explanation of transition to IFRS

This is the first period that the Group has presented its financial statements under IFRS. The following disclosures are required in the period of transition. The last financial statements under UK GAAP were for the year ended 31 October 2005 and the date of transition to IFRS was therefore 1 November 2004.

Differences between IFRS and UK GAAP

Employee option costs – IFRS 2 Share-based Payments
All transactions within the scope of IFRS 2 are valued based on the fair value of the option or award at grant date and expensed to the income statement over the vesting period of the scheme.

Pension costs – IAS 19 Employee Benefits
IAS 19 requires recognition on the balance sheet of the Group's liability under its defined benefit pension schemes. The Group has elected to adopt a policy of recognising actuarial gains and losses in the period in which they occur, as a change in equity through the statement of recognised income and expense as permitted by the amendment to IAS 19 issued on 16 December 2004.

Goodwill – IFRS 3 Business Combinations
Under IFRS 3 goodwill is not amortised. Instead it is subject to an annual impairment review. Adjustments have been made to remove the goodwill amortisation charge and to restate the calculation of goodwill impairment and goodwill attributable to business disposals.

Brochure and promotional costs – IAS 38 Intangible Assets
IAS 38 requires that expenditure on advertising and promotion is written off as incurred. The Group's previous accounting policy, in accordance with UK GAAP, was to charge brochure and promotional costs to the income statement over the season to which they relate, where recovery of the costs was reasonably assured. The seasonal nature of the Group's business will result in a transfer of costs from the second half of the financial year to the first half of the financial year.

36 Explanation of transition to IFRS continued

Residual values of property, plant and equipment – IAS 16 Property, Plant and Equipment
IAS 16 defines the residual value of an asset as the estimated amount that would currently be obtained if the asset were of the age and condition expected at the end of its useful life. The Group previously used the estimated prospective residual value at the end of an asset's useful life. Residual values under IFRS are on average lower than under UK GAAP with the result that depreciation charges will be higher.

Special purpose entities – SIC 12 Consolidation – Special Purpose Entities
Interpretation guidance included within SIC Interpretation 12 indicates that certain special purpose entities involved in the leasing of aircraft to the Group should be regarded as being controlled by the Group, and therefore subject to consolidation, in circumstances that would not have indicated control under UK GAAP. As a result, two aircraft owned by these entities, together with the related debt, are now carried on the Group's balance sheet.

In addition, as this gives rise to additional debt on the balance sheet at the date of the consensual restructuring effected on 31 December 2004, there are consequential changes to the accounting for that restructuring.

Computer software – IAS 38 Intangible Assets
IAS 38 requires that computer software that is not an integral part of the related hardware be treated as an intangible asset. Under UK GAAP, computer software was included in property, plant and equipment.

Associates – *IAS 1 Presentation of Financial Statements*
IAS 1 requires the share of profits of associates to be shown after tax. Under UK GAAP, the share of associates' operating profit, net interest and tax were included within the Group totals for those headings.

Deferred tax – IAS 12 Income Taxes
IAS 12 requires that provision for deferred tax is made in respect of unremitted earnings of subsidiaries, associates and joint ventures unless the Group controls the timing of the remittance of such earnings and it is probable that the earnings will not be remitted in the foreseeable future. Under UK GAAP, the Group only recognised such a deferred tax liability to the extent that remittances had been accrued or a binding agreement to distribute past earnings had been entered into. IAS 12 also requires deferred tax assets and deferred tax liabilities to be shown separately on the face of the balance sheet.

Provisions – IAS 1 Presentation of Financial Statements
IAS 1 requires provisions to be shown as current or non-current liabilities as appropriate. Under UK GAAP, provisions for liabilities were shown as a single caption on the face of the balance sheet.

Cash flow
Apart from presentational differences, the principal differences between UK GAAP and IFRS relate to the consolidation of the special purpose entities, resulting in a reclassification of operating lease payments as repayment of borrowings. There is no impact on the final cash position nor the movement in the period.

The reconciliations of equity and profit or loss on pages 75 to 77, together with the explanations of the changes, are provided to facilitate the understanding of changes arising from the adoption of IFRS.

36 Explanation of transition to IFRS continued

Reconciliation of equity at 1 November 2004 (date of transition to IFRS)

	UK GAAP in IFRS format £m	Effect of transition to IFRS £m	IFRS £m
Non-current assets			
Goodwill	146.2	–	146.2
Other intangible assets	–	14.2	14.2
Property, plant and equipment	302.8	53.4	356.2
Investments	51.1	–	51.1
Deferred tax assets	–	6.0	6.0
Trade and other receivables	104.6	–	104.6
	604.7	73.6	678.3
Current assets			
Inventories	6.7	–	6.7
Trade and other receivables	281.6	(21.8)	259.8
Cash and cash equivalents	305.2	–	305.2
	593.5	(21.8)	571.7
Total assets	1,198.2	51.8	1,250.0
Current liabilities			
Trade and other payables	(726.5)	1.4	(725.1)
Short term borrowings	(0.3)	–	(0.3)
Current portion of long term borrowings	(6.4)	(8.4)	(14.8)
Obligations under finance leases	(24.2)	–	(24.2)
Tax liabilities	(36.3)	–	(36.3)
Revenue received in advance	(262.9)	–	(262.9)
Short term provisions	–	(40.6)	(40.6)
	(1,056.6)	(47.6)	(1,104.2)
Non-current liabilities			
Trade and other payables	(31.7)	–	(31.7)
Long term borrowings	(745.0)	(100.4)	(845.4)
Obligations under finance leases	(106.5)	–	(106.5)
Tax liabilities	(11.0)	–	(11.0)
Deferred tax liabilities	(21.4)	(5.5)	(26.9)
Long term provisions	(105.0)	40.6	(64.4)
	(1,020.6)	(65.3)	(1,085.9)
Total liabilities	(2,077.2)	(112.9)	(2,190.1)
Net liabilities	(879.0)	(61.1)	(940.1)
Equity			
Called-up share capital	54.4	–	54.4
Share premium account	114.2	–	114.2
Capital redemption reserve	3.2	–	3.2
Retained earnings deficit	(1,051.9)	(61.1)	(1,113.0)
Investment in own shares	(0.3)	–	(0.3)
Equity attributable to equity holders of the parent	(880.4)	(61.1)	(941.5)
Minority interests	1.4	–	1.4
Total equity	(879.0)	(61.1)	(940.1)

36 Explanation of transition to IFRS continued

Reconciliation of equity at 31 October 2005 (date of last UK GAAP financial statements)

	UK GAAP in IFRS format £m	Effect of transition to IFRS £m	IFRS £m
Non-current assets			
Goodwill	135.5	7.1	142.6
Other intangible assets	–	10.7	10.7
Property, plant and equipment	269.8	55.1	324.9
Investments	8.9	–	8.9
Deferred tax assets	–	6.5	6.5
Trade and other receivables	86.6	(10.2)	76.4
	500.8	69.2	570.0
Current assets			
Inventories	7.7	–	7.7
Tax assets	6.4	–	6.4
Trade and other receivables	230.5	(23.5)	207.0
Cash and cash equivalents	249.0	–	249.0
	493.6	(23.5)	470.1
Total assets	994.4	45.7	1,040.1
Current liabilities			
Trade and other payables	(589.4)	(1.0)	(590.4)
Short term borrowings	(2.5)	–	(2.5)
Current portion of long term borrowings	–	(4.5)	(4.5)
Obligations under finance leases	(23.0)	–	(23.0)
Tax liabilities	(51.5)	–	(51.5)
Revenue received in advance	(236.8)	–	(236.8)
Short term provisions	–	(36.2)	(36.2)
	(903.2)	(41.7)	(944.9)
Non-current liabilities			
Trade and other payables	(29.5)	–	(29.5)
Long term borrowings	–	(61.2)	(61.2)
Obligations under finance leases	(94.3)	–	(94.3)
Tax liabilities	(10.7)	–	(10.7)
Deferred tax liabilities	(8.3)	(5.5)	(13.8)
Long term provisions	(108.6)	35.6	(73.0)
	(251.4)	(31.1)	(282.5)
Total liabilities	(1,154.6)	(72.8)	(1,227.4)
Net liabilities	(160.2)	(27.1)	(187.3)
Equity			
Called-up share capital	136.4	–	136.4
Share premium account	734.2	–	734.2
Capital redemption reserve	3.2	–	3.2
Translation and hedging reserves	–	10.3	10.3
Retained earnings deficit	(1,035.0)	(37.4)	(1,072.4)
Investment in own shares	(0.3)	–	(0.3)
Equity attributable to equity holders of the parent	(161.5)	(27.1)	(188.6)
Minority interests	1.3	–	1.3
Total equity	(160.2)	(27.1)	(187.3)

36 Explanation of transition to IFRS continued

Reconciliation of profit or loss for the year ended 31 October 2005

	UK GAAP in IFRS format £m	Effect of transition to IFRS £m	IFRS £m
Revenue	2,910.1	–	2,910.1
Cost of sales	(2,438.4)	3.4	(2,435.0)
Gross profit	471.7	3.4	475.1
Operating expenses	(449.5)	2.3	(447.2)
Profit from operations	22.2	5.7	27.9
Analysed between:			
Profit from operations before exceptional items	41.0	9.2	50.2
Exceptional items	(18.8)	(3.5)	(22.3)
	22.2	5.7	27.9
Share of results of associates and joint ventures	1.7	(0.6)	1.1
Disposal of items of property, plant and equipment	0.6	–	0.6
Loss on disposal of subsidiary and joint venture undertakings	(27.7)	(0.3)	(28.0)
(Loss)/profit before finance items	(3.2)	4.8	1.6
Finance income	9.3	–	9.3
Finance costs	(24.4)	(3.9)	(28.3)
Loss before tax	(18.3)	0.9	(17.4)
Tax	(23.1)	(0.2)	(23.3)
Loss for the year	(41.4)	0.7	(40.7)
Attributable to:			
Equity holders of the parent	(41.6)	0.7	(40.9)
Minority interests	0.2	–	0.2
	(41.4)	0.7	(40.7)

37 Adoption of IAS 32 and 39

Reconciliation of equity at 1 November 2005 from opening position to post IAS 32 and 39 adoption

The Group adopted IAS 32 and 39 on 1 November 2005 as permitted under the exemptions of IFRS 1. The impact was limited to the valuation of financial assets and liabilities and related foreign currency and fuel purchase hedging instruments. Under UK GAAP, the underlying financial assets and liabilities were recorded at the values implicit in the hedging instruments whereas IAS 32 and 39 require the financial assets and liabilities to be recorded at fair value and require fair values to be separately attributed to the hedging instruments.

The effect on equity at 1 November 2005 was as follows:

	IFRS before adoption of IAS 32 and 39 £m	Adoption of IAS 32 and 39 £m	IFRS after adoption of IAS 32 and 39 £m
Non-current assets			
Goodwill	142.6	–	142.6
Other intangible assets	10.7	–	10.7
Property, plant and equipment	324.9	–	324.9
Investments	8.9	–	8.9
Deferred tax assets	6.5	–	6.5
Trade and other receivables	76.4	0.1	76.5
	570.0	0.1	570.1
Current assets			
Inventories	7.7	–	7.7
Tax assets	6.4	–	6.4
Trade and other receivables	207.0	(1.2)	205.8
Derivative financial instruments	–	10.5	10.5
Cash and cash equivalents	249.0	0.1	249.1
	470.1	9.4	479.5
Total assets	1,040.1	9.5	1,049.6
Current liabilities			
Trade and other payables	(590.4)	1.5	(588.9)
Short term borrowings	(2.5)	–	(2.5)
Current portion of long term borrowings	(4.5)	–	(4.5)
Obligations under finance leases	(23.0)	(0.3)	(23.3)
Tax liabilities	(51.5)	–	(51.5)
Revenue received in advance	(236.8)	0.1	(236.7)
Short term provisions	(36.2)	–	(36.2)
Derivative financial instruments	–	(17.1)	(17.1)
	(944.9)	(15.8)	(960.7)
Non-current liabilities			
Trade and other payables	(29.5)	0.3	(29.2)
Long term borrowings	(61.2)	–	(61.2)
Obligations under finance leases	(94.3)	–	(94.3)
Tax liabilities	(10.7)	–	(10.7)
Deferred tax liabilities	(13.8)	–	(13.8)
Long term provisions	(73.0)	(1.1)	(74.1)
	(282.5)	(0.8)	(283.3)
Total liabilities	(1,227.4)	(16.6)	(1,244.0)
Net liabilities	(187.3)	(7.1)	(194.4)
Equity			
Called-up share capital	136.4	–	136.4
Share premium account	734.2	–	734.2
Capital redemption reserve	3.2	–	3.2
Translation and hedging reserves	10.3	(6.4)	3.9
Retained earnings deficit	(1,072.4)	(0.7)	(1,073.1)
Investment in own shares	(0.3)	–	(0.3)
Equity attributable to equity holders of the parent	(188.6)	(7.1)	(195.7)
Minority interests	1.3	–	1.3
Total equity	(187.3)	(7.1)	(194.4)

Five Year Review

	IFRS		UK GAAP		
	Year ended 31 October 2006 £m	Year ended 31 October 2005 £m	13 months to 31 October 2004 £m	Year ended 30 September 2003 £m	Year ended 30 September 2002 £m
Income statement					
Revenue	**2,796.5**	2,910.1	3,462.8	4,190.2	4,379.2
Profit/(loss) from operations pre-goodwill amortisation and exceptional items	**61.6**	50.2	(24.7)	(365.6)	(27.5)
Share of results of associates and joint ventures	**0.1**	1.1	7.2	7.3	7.1
Profit/(loss) before tax, goodwill amortisation and exceptional items	**60.0**	46.1	(82.4)	(411.3)	(11.9)
Profit/(loss) before tax	**43.8**	(17.4)	(190.3)	(910.9)	(72.8)
Tax charge/(credit)	**17.2**	23.3	13.0	(2.8)	(29.5)
Profit/(loss) for the financial period attributable to equity holders of the parent	***26.0***	*(40.9)*	*(203.6)*	*(913.2)*	*(60.1)*
Dividends	**–**	–	–	–	9.8
Transfer to/(from) reserves	**26.0**	(40.9)	(203.6)	(913.2)	(69.9)
Balance sheet					
Intangible assets	**143.6**	153.3	146.2	277.8	490.4
Property, plant and equipment	**297.1**	324.9	302.8	367.3	489.6
Investments	**8.7**	8.9	51.1	50.9	81.3
Cash and cash equivalents	**204.7**	*249.0*	*305.2*	*254.9*	*292.7*
Inventories	**8.0**	7.7	6.7	11.3	14.0
Trade and other receivables	**290.4**	296.3	386.2	572.3	724.2
Total liabilities	**(1,151.5)**	(1,227.4)	(2,077.2)	(2,207.4)	(1,707.7)
Net (liabilities)/assets	***(199.0)***	*(187.3)*	*(879.0)*	*(672.9)*	*384.5*
Statistics					
Basic earnings/(loss) per share*	**5.67p**	(10.89)p	(1,136.21)p	(5,565.30)p	(366.60)p
*Diluted earnings/(loss) per share**	**5.63p**	*(10.89)p*	*(1,136.21)p*	*(5,565.30)p*	*(366.60)p*
Basic earnings/(loss) per share pre-goodwill amortisation and exceptional items*	**9.19p**	6.08p	(532.57)p	(2,578.80)p	(32.40)p
Diluted earnings/(loss) per share pre-goodwill amortisation and exceptional items*	**9.13p**	6.05p	(532.57)p	(2,578.80)p	(32.40)p
Dividend per share	**–**	–	–	–	2.00p
Net (liabilities)/assets per share*	**(43.16)p**	(41.21)p	(4,842.90)p	(4,077.30)p	2,344.20p
Ratios					
Dividend cover	**N/A**	N/A	N/A	N/A	(6.11)
Dividend cover pre-goodwill amortisation and exceptional items	**N/A**	N/A	N/A	N/A	(0.54)
Share data*					
Number of shares in issue – period end	**461.1m**	454.5m	544.5m	494.9m	494.9m
– average	**458.4m**	374.3m	537.5m	492.2m	492.1m
Diluted number of shares	**461.6m**	376.1m	537.5m	492.2m	492.1m
Share price*					
High	**251.75p**	206.50p	21.50p	78.25p	283.50p
Low	**173.00p**	113.10p	4.05p	8.00p	81.50p
Average	**216.82p**	170.66p	10.07p	19.75p	180.00p

*Share prices quoted for 2006 and 2005 are for the new ordinary shares of 30p each following the share division and consolidation during 2005. Share prices for earlier years are quoted for the old ordinary shares of 10p each.

Share data for 2006 and 2005 is based on the new ordinary shares of 30p each. Data for previous periods has not been restated.

Earnings/(loss) per share and net (liabilities)/assets per share for all periods are stated to reflect the July 2005 30:1 consolidation of ordinary shares.

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in note 36 to the financial statements which provides an explanation of the transition to IFRS.

Independent Auditors' Report

To the members of MyTravel Group plc
We have audited the individual Company Financial Statements of MyTravel Group plc for the year ended 31 October 2006 which comprise the Balance Sheet and the related notes 1 to 16. These individual Company Financial Statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the Remuneration Report are included in the Group Annual Report of MyTravel Group plc for the year ended 31 October 2006. We have reported separately on the Group Financial Statements of MyTravel Group plc for the year ended 31 October 2006 and on the information in the Remuneration Report that is described as having been audited.

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 that we are required to state to them in an auditors' 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 Annual Report and the individual Company 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 individual Company Financial Statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company Financial Statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company Financial Statements have been properly prepared in accordance with the Companies Act 1985.

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 other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited individual Company Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company Financial Statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 individual Company Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company 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 individual Company 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 individual Company Financial Statements.

Opinion
In our opinion:

- the individual Company 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 October 2006;
- the individual Company 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.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
14 December 2006

Deloitte & Touche LLP

Company Balance Sheet

As at 31 October

	note	2006 £m	2005 Restated* £m
Fixed assets			
Tangible fixed assets	4	**0.2**	1.5
Investments in subsidiaries	5	**1,264.5**	2,059.1
		1,264.7	2,060.6
Current assets			
Debtors: amounts falling due within one year	6	**724.9**	1,288.6
Debtors: amounts falling due after one year	7	**10.0**	31.4
Cash and deposits	8	**0.3**	102.3
		735.2	1,422.3
Creditors: amounts falling due within one year	9	**(1,385.4)**	(3,109.8)
Net current liabilities		**(650.2)**	(1,687.5)
Total assets less current liabilities		**614.5**	373.1
Creditors: amounts falling due after one year	10	**(1.1)**	(2.6)
Provisions for liabilities	11	**–**	(0.3)
Net assets		**613.4**	370.2
Equity			
Called-up share capital	12	**138.3**	136.4
Share premium account	13	**193.5**	734.2
Capital redemption reserve	13	**3.2**	3.2
Other reserves	13	**269.1**	–
Profit and loss account	13	**9.4**	(503.5)
Investment in own shares	13	**(0.1)**	(0.1)
Equity shareholders' funds		**613.4**	370.2

*See note 1.

These financial statements were approved by the Board of Directors on 14 December 2006.

Signed on behalf of the Board

J Allkins
Director

Notes 1 to 16 form part of these financial statements.

Notes to the Company Financial Statements

1 Accounting policies

The financial statements are prepared under UK GAAP (United Kingdom Generally Accepted Accounting Practice) and in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below and have been applied on a consistent basis in the current and preceding period.

The following accounting standards have been adopted in these accounts:

Financial Reporting Standard No. 20 "Share-based payment";
Financial Reporting Standard No. 21 "Events after the balance sheet date";
Financial Reporting Standard No. 23 "The effects of changes in foreign exchange rates";
Financial Reporting Standard No. 25 "Financial instruments: Disclosure and presentation"; and
Financial Reporting Standard No. 26 "Financial instruments: Measurement".

The adoption of these accounting standards has had no effect on the balance sheet of the Company at 31 October 2005. The effect of FRS 20 on the results of the Company for the year ended 31 October 2005 was to reduce the profit for the year by £2.1m with a corresponding credit to reserves.

FRS 25 and FRS 26 were adopted as accounting policies with effect from 1 November 2005. The effect of the adjustment is to separate the fair value of forward foreign currency and fuel purchase contracts from the underlying cash flows which were previously recorded at the forward contract rates. Under the exemption permitted, the comparative periods have not been restated. Comparative periods are disclosed and measured based on UK GAAP as at 31 October 2005, under which the carrying amounts of financial assets and liabilities were accounted for using hedge accounting whereas under FRS 26 they are disclosed separately at fair value.

The fair values of derivative financial instruments at 1 November 2005 were:

		Currency contracts £m	Fuel contracts £m	Total £m
Current assets	fair value of derivatives	6.7	3.8	10.5
	amounts owed by subsidiary undertakings	4.4	–	4.4
		11.1	3.8	14.9
Current liabilities	fair value of derivatives	(14.3)	–	(14.3)
	amounts owed to subsidiary undertakings	(5.4)	(15.7)	(21.1)
		(19.7)	(15.7)	(35.4)
Prior year adjustment		(8.6)	(11.9)	(20.5)

With effect from 1 June 2006, the treasury operations of the Company, including all derivative financial instruments, were transferred to a newly created subsidiary company, MyTravel Treasury Limited.

Other restatements
Other reserves reported in the Company balance sheet at 31 October 2005 included £153.6m in respect of a special reserve created pursuant to a Court Order dated 15 July 1998. The terms of the undertakings given in respect of that special reserve had been fully satisfied as a result of the completion of the consensual restructuring and the reserve should have been transferred to the profit and loss account at 31 October 2005.

Subsequent to the approval of the financial statements for the year ended 31 October 2005, it was recognised that certain of the steps of a corporate restructuring that had completed on 1 November 2005 had in fact taken place on 28 October 2005, including the transfer of an investment to MyTravel Group plc. As a result, investments in subsidiaries and amounts owed to subsidiary undertakings in the Company balance sheet were both understated by £930.0m. During the year ended 31 October 2006, this investment was transferred to another Group company.

Basis of accounting
These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments.

Income from shares in Group undertakings
These amounts represent dividends from investments. The dividends are recognised in the period in which consideration is received.

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation on tangible fixed assets is calculated on a straight-line basis and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Short leasehold properties	period of lease
Computer equipment and software	4 years
Other fixed assets	3 to 15 years

Investments in subsidiaries
Investments in subsidiaries are shown at cost less provision for impairment.

1 Accounting policies continued

Leases
Assets held under finance leases are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of lease payments represents a constant proportion of the capital balance outstanding and is charged to profit and loss over the period of the lease.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the initial period of the lease term.

Foreign currency
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the period end are translated at period end exchange rates. Resulting exchange gains or losses are taken through the profit and loss account.

Capital instruments
Capital instruments are accounted for in accordance with the principles of FRS 26 – Financial Instruments: Measurement, and are classified as equity share capital, minority interest or debt as appropriate.

Own shares held under trust
Shares held within Employee Share Ownership Plans are dealt with in the balance sheet as a deduction from equity shareholders' funds.

2 Profit for the year

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. The profit after tax of the Company amounted to £253.8m (2005: £268.1m).

The auditors' remuneration for audit services to the Company was £0.1m (2005: £0.2m).

3 Staff costs

Staff costs during the year were as follows:

	2006 £m	2005 £m
Wages and salaries	**3.9**	6.3
Social security costs	**0.6**	0.5
Pension costs – defined contribution plans	**0.6**	0.5
	5.1	7.3

	2006 Number	2005 Number
Average number of employees of the Company	**34**	41

All employees are employed in the United Kingdom and the Republic of Ireland.

Disclosures of individual Directors' remuneration, share options, long term incentive schemes, pension contributions and pension entitlements required by the Companies Act 1985 and those specified for audit by the Financial Services Authority are on pages 32 to 34 within the Remuneration Report and form part of these audited accounts.

4 Tangible fixed assets

	Computer equipment and software £m	Other fixed assets £m	Total £m
Cost			
At 1 November 2005 and 31 October 2006	**7.3**	**3.2**	**10.5**
Depreciation			
At 1 November 2005	5.8	3.2	9.0
Charge for the year	1.3	–	1.3
At 31 October 2006	**7.1**	**3.2**	**10.3**
Net book value at 31 October 2006	**0.2**	**–**	**0.2**
Net book value at 31 October 2005	1.5	–	1.5

The net book value of assets held under finance leases included above in computer equipment and software was £0.2m (2005: £1.5m).

5 Investments in subsidiaries

	£m
Cost	
At 1 November 2005	2,616.0
Additions	564.4
Disposals	(1,893.2)
At 31 October 2006	**1,287.2**
Amounts written off or provided	
At 1 November 2005	556.9
Released in the year	(140.0)
Disposals	(394.2)
At 31 October 2006	**22.7**
Net book value at 31 October 2006	**1,264.5**
Net book value at 31 October 2005	*2,059.1*

A list of the Company's principal subsidiary undertakings is shown in note 16 to the Company financial statements on page 87.

6 Debtors: amounts falling due within one year

	2006 £m	2005 £m
Trade debtors	**0.6**	1.0
Amounts owed by subsidiary undertakings	**723.4**	1,278.2
Other debtors	**0.4**	5.3
Deposits and prepayments	**0.5**	4.1
	724.9	1,288.6

7 Debtors: amounts falling due after one year

	2006 £m	2005 £m
Other debtors	**0.6**	1.0
Deposits and prepayments	**9.4**	30.4
	10.0	31.4

8 Cash and deposits

	2006 £m	2005 £m
Cash at bank and in hand	**0.3**	60.9
Term deposits	**–**	41.4
	0.3	102.3

Term deposits represent cash on deposit with banks for periods in excess of 24 hours.

9 *Creditors: amounts falling due within one year*

	2006 £m	2005 £m
Trade creditors	**0.3**	1.6
Amounts owed to subsidiary undertakings	**1,379.9**	3,088.2
Current tax	**2.1**	4.7
Social security and other taxation	**–**	0.2
Other creditors	**0.4**	6.5
Accruals and deferred income	**2.7**	8.1
Amounts due under finance leases (see note 10)	**–**	0.5
	1,385.4	3,109.8

10 Creditors: amounts falling due after one year

	2006 £m	2005 £m
Other creditors	**1.1**	1.6
Accruals and deferred income	–	1.0
	1.1	2.6

	2006 £m	2005 £m
Finance leases		
Total outstanding	–	0.5
Less: amounts falling due within one year	–	(0.5)
Amounts falling due after one year	–	–

11 Provisions for liabilities

	2006 £m	2005 £m
Deferred tax	–	–
Other provisions	–	0.3
	–	0.3

The movements on other provisions during the year were as follows:	2006 £m	2005 £m
At the start of the year	**0.3**	2.9
Utilised in the year	**(0.3)**	(2.6)
At the end of the year	–	0.3

Other provisions relate to provisions for onerous leases and future obligations.

12 Called-up share capital

The details of the Company's share capital are the same as those of the Group, and are disclosed in note 27 in the notes to the Group financial statements in this report.

Details of share options granted by the Company are set out in note 33 to the Group financial statements. Of the expense recognised in respect of share-based payments, £0.4m related to employees of the Company (2005: £2.1m).

13 Reserves

	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Investment in own shares £m
At 1 November 2005	734.2	3.2	153.6	(657.1)	(0.1)
Prior year adjustment – reclassification of reserves (note 1)	–	–	(153.6)	153.6	–
Prior year adjustment – adoption of FRS 26 (note 1)	–	–	–	(20.5)	–
At 1 November 2005 restated	734.2	3.2	–	(524.0)	(0.1)
Premium on allotments during the period	7.6	–	–	–	–
Capital reduction – cancellation of share premium	(548.3)	–	100.0	448.3	–
Transfer of retained profit for the year	–	–	–	253.8	–
Equity credit in respect of share-based payments	–	–	–	0.4	–
Transfers to special reserve	–	–	169.1	(169.1)	–
At 31 October 2006	**193.5**	**3.2**	**269.1**	**9.4**	**(0.1)**

The capital redemption reserve was created in 1998 when the Company redeemed its remaining convertible cumulative preference shares of 20p each, and represents the nominal value of the shares cancelled.

By a special resolution of the members of the Company passed on 26 May 2006, the share premium account was reduced by £548,316,000 in order to eliminate the deficit on the Company's accumulated retained earnings. The reduction in the share premium account was confirmed by the High Court on 28 June 2006. The excess of the cancellation of share premium account over the deficit on the Company's retained earnings was required by the terms of the court order to be credited, along with certain other gains or losses that may be recognised by the Company, to a special non-distributable reserve for as long as there remains outstanding any debt or claim against the Company which existed at the date of the reduction in share premium account. The balance on the special non-distributable reserve at 31 October 2006 was £269.1m and is included in other reserves in the above table.

As explained in note 1, the other reserve reported at 1 November 2005 of £153.6m represented a special reserve created pursuant to a court order dated 15 July 1998. The terms of of the undertakings given in respect of that special reserve had been fully satisfied by 31 October 2005 and the reserve should have been transferred to the profit and loss account.

At 31 October 2006, the Company had distributable reserves of £9.4m (2005: £nil).

14 Operating lease arrangements

There were no operating lease costs or commitments during the period (2005: £nil).

15 Contingent liabilities

At 31 October 2006, there were contingent liabilities under counter indemnities given to the Group's bankers and other third parties in the normal course of business in respect of CAA and other similar bonds, leases for aircraft and aircraft spares and other guarantees amounting to £526.2m (2005: £529.0m).

The Company provides guarantees to certain of its subsidiary undertakings. No liabilities are expected to arise under these guarantees. The amount outstanding in respect of these guarantees at 31 October 2006 was £77.1m (2005: £119.1m).

16 Principal subsidiaries and associated undertakings

At 31 October 2006 the Company's principal subsidiary and associated undertakings were:

		Country of *incorporation* and operation	Proportion *held by* Company (%)	Proportion *held by* Group (%)
Tour operators	MyTravel Tour Operations Limited	England		100
	Airtours Holidays Limited	England		100
	BCT Travel Group Limited	England		100
	Direct Holidays PLC	England		100
	Globetrotter Tour Production A/S	Denmark		100
	Panorama Holiday Group Limited	England		100
	MyTravel Canada Holidays Inc.	Canada		100
	Oy Tjareborg AB	Finland		100
	Sunquest Holidays Inc.	USA		100
	MyTravel Sweden AB	Sweden		100
	Ving Norge A/S	Norway		100
	Saga Solreiser A/S	Norway		100
Hotel operators	Hoteles Sunwing S.A.	Spain		100
	Sunwing Hotels Hellas S.A.	Greece		100
	Sunwing Hotels (Cyprus) Limited	Cyprus		100
	Servicios de Administracion y Operacion de Hoteles S.A. de CV	Mexico		100
	Airtours Resort Mallorca S.L.	Spain		100
	Aqua Sol Hotels Limited	*Cyprus*		19.99
	Parkway Property Management France SAS	France		100
Airlines	MyTravel Airways Limited	England		100
	MyTravel Airways A/S	Denmark		100
Aircraft maintenance	MyTravel Aircraft Engineering Limited	England		100
Travel retailers	Going Places Leisure Travel Limited	England		100
Agency companies	MyTravel Vacances S.A.	France		100
	MyTravel Portugal – Agencia de Viagens S.A.	Portugal		100
	MyTravel Spain Incoming Services S.A.	*Spain*		*100*
	MyTravel Canarias Incoming Services S.A.	Spain		70
Insurance company	White Horse Insurance Ireland Limited	Ireland		100
Investment and/or holding companies	Airtours Resort Ownership Espana SL	Spain		100
	Blue Sea Investments Limited	England	100	
	Blue Sea Overseas Investments Limited	England	100	
	MyTravel Canada Holdings Inc.	Canada		100
	Parkway Holdings UK BV	*Holland*		*100*
	White Horse Holdings UK BV	Holland	100	
	MyTravel Holdings Northern Europe AB	Sweden		100
	Sun International (UK) Limited	England		100
	MyTravel UK Limited	England		100
	Parkway Northern Europe Holdings A/S	Denmark		100
	Parkway SA	Luxembourg		100
	MyTravel Northern Europe AB	Sweden		100
	OY MyTravel Holdings Finland AB	Finland		100
	MyTravel Holdings Norway A/S	Norway		100
	MyTravel Holdings Denmark A/S	Denmark		100
	MyTravel Treasury Limited	England	100	
	MyTravel Luxembourg Sarl	Luxembourg		100
	Parkway IPR Limited	England	100	
	MyTravel IPR Ireland Limited	Ireland		100

Shareholder Information

Analysis of shareholders

At 31 October 2006 there were 18,671 shareholders registered compared with 19,029 at 31 October 2005.

Type	Number of holders	Shares held
Individuals	18,176	16,894,036
Life/Insurance funds	106	101,277,755
Pension funds	135	62,644,263
Overseas funds	79	76,378,011
Unit/Investment trusts	107	46,844,061
Collateral/Proprietary/ Market makers	25	139,596,302
Other	43	17,432,708
Total	18,671	461,067,136

Shareholders' benefits

Concessionary discounts

As a shareholder you are entitled to certain benefits and discounts on bookings made with MyTravel Group companies. Please note that these discounts cannot be obtained through travel agencies or the internet and must be booked through the numbers shown below.

You will be entitled to receive a discount of 10% off the published brochure price of any of the following MyTravel brands:

Airtours	Aspro
Direct	Escapades
Panorama	Manos
Bridge	Cresta
Tradewinds	

This discount cannot be taken against flight only bookings. No discount can be given against air passenger duty or fuel supplements applied to your booking.

You will also be able to take advantage of the following offers provided your booking is made at least 28 days prior to departure. When you are flying on a MyTravel Airways flight, the pre-bookable seats service will be offered to you free of charge, subject to availability. For each booking you make you will be presented with a free bottle of champagne to enjoy during your outbound flight. Unfortunately, if you are travelling with any other airline we are unable to offer these benefits.

These benefits and discounts are available to you all year round and can be arranged by calling the numbers or by e-mail to the address shown below:

Airtours	Aspro
Direct	Escapades
Panorama	Manos
Telephone no.	0870 161 6891
E-mail	shareholders@mytravel.co.uk
Opening times	Monday to Friday 09:00 to 17:30 Saturday 10:00 to 15:00
Bridge	Cresta
Tradewinds	
Telephone no.	0870 161 0936
Opening times	Monday to Friday 08:30 to 20:00 Saturday 9:00 to 17:30 Sunday 10.00 to 16:00

In all cases, shareholders will need to quote their name and shareholder number as shown on their share certificate at the time of booking. Please note that these offers and discounts cannot be taken in conjunction with any other offer or promotion and the shareholder must travel to take advantage of the offers.

Shareholder enquiries

The Company's share register is maintained by Lloyds TSB Registrars Scotland.

Any queries about the administration of shareholdings, such as change of address, change of ownership, or dividend payments should be directed to Lloyds TSB Registrars, The Causeway, Worthing, W. Sussex BN99 6DA, or through the shareholder telephone helpline on 0870 601 5366.

Corporate Advisors

Principal bankers
Barclays Capital
1 Churchill Place
London E14 5HP

The Royal Bank of Scotland plc
Corporate & Institutional Banking
135 Bishopsgate
London EC2M 3UR

Stockbrokers
Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Financial communications
Brunswick Group LLP
16 Lincoln's Inn Fields
London WC2A 3ED

Financial advisors
Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

Tricorn Partners LLP
27 Knightsbridge
London SW1X 7LY

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registrars and transfer office
Lloyds TSB Registrars Scotland
PO Box 28448
Finance House, Orchard Brae
Edinburgh EH4 1WQ

External auditors
Deloitte & Touche LLP
Chartered Accountants
and Registered Auditors
2 Hardman Street
Manchester M60 2AT

Internal auditors
Ernst & Young LLP
100 Barbirolli Square
Manchester M2 3EY

Solicitors
Addleshaw Goddard LLP
100 Barbirolli Square
Manchester M2 3AB

Slaughter and May
One Bunhill Row
London EC1Y 8YY

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MyTravel Group plc

Holiday House
Sandbrook Park
Sandbrook Way
Rochdale
Lancashire OL11 1SA
Telephone: +44 (0)1706 742000
www.mytravelgroup.com

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Registered in England and Wales