CITALIA HOLIDAYS LIMITED

Directors' report and financial statements

Registered number 446617

For the 11-month period ended 30 September 2007

Directors' report for the 11-month period ended 30 September 2007

The directors present their report and the audited financial statements for Citalia Holidays Limited for the 11-month period ended 30 September 2007

On 3 September 2007, First Choice Holidays PLC (now First Choice Holidays Limited) merged with the Tourism Division of TUI AG to form TUI Travel PLC During the period, the Company changed its accounting reference date from 31 October to 30 September to coincide with the accounting reference date of the other companies in the TUI Travel PLC Group of Companies

These accounts reflect the results and financial position of the Company, Citalia Holidays Limited In the prior year, consolidated financial statements had been voluntarily prepared In the current year, the Company has taken advantage of the exemption available from preparing consolidated financial statements

Principal activity
The principal activity of the Company continued to be as a tour operator for Italy, with tours supported by quality accommodation in villas and hotels

Business review
The Company's profit on ordinary activities before taxation was £2,535,535 *(2006 £2,194,291)* The results for the period are shown in the profit and loss account on page 6 The directors do not recommend the payment of a dividend *(2006 £Nil)*

The package holiday market during 2007 faced challenging trading conditions However, Citalia has continued to see the benefit from greater visibility and brand awareness derived from the extension of its franchise arrangements with key independent travel agencies The Citalia brand now has a wide representation in the key high street locations and the Company will examine all opportunities to further enhance the Citalia brand

The directors believe that the Company is well equipped to face the fast-changing and challenging environment of 2008, and beyond by capitalising on the strength of the Citalia brand and driving margin improvement

During the year, the Directors managed the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in the First Choice Holidays Limited Group of companies ("First Choice") Following the merger of First Choice with the certain of the Tourism businesses of the TUI AG Group of companies to form the TUI Travel PLC Group of companies ("TUI Travel") the Directors manage the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in TUI Travel The Directors of TUI Travel review the Company's risks and uncertainties in the context of the whole Group The Directors of the Company believe that this review process is appropriate given that the Company's operations are managed in co-ordination with those of the TUI Travel Specialist businesses The principal risks and uncertainties which are common to First Choice, TUI Travel and the Company are

- Geo-political events and natural disasters The nature of our business means that we are at risk of geo-political events or natural disasters Whilst Citalia solely focuses on holidays to Italy, it operates with a flexible and efficient business model and TUI Travel minimises the reliance on any one destination across the Group as a whole

- Commercial relationships We have well established and close relationships with our suppliers and spread our risk by not placing over-reliance on any one supplier in any particular area However, if a relationship was lost or damaged with a major supplier this could have a detrimental effect on our business The management team meets regularly with suppliers to maintain good working relationships

- Information technology The Company is heavily reliant upon information technology Investment is being made to ensure that we have advanced and efficient systems in place but there is a risk if there were a major failure – particularly if it were to affect selling systems Procedures are in place to minimise the time a selling system is unavailable in the event of such a failure

Directors' report for the 11-month period ended 30 September 2007 (continued)

Business review (continued)

- Environmental risk As a tour operator we use aircraft to take people on holidays, sometimes to countries where tourism is just developing This does have an impact on the environment and we take our corporate and social responsibilities seriously at every level We work with the authorities and suppliers in the destinations we serve to ensure that any local environmental impact is minimised in the best interest of the indigenous population

As the Directors manage the Company in co-ordination with the management of the TUI Travel Specialist businesses, they take the view that analysis using key performance indicators ("KPIs") for the Company alone is not necessary or appropriate for an understanding of the development, performance and positioning of its business

The development, performance and position of the Specialist Sector of First Choice Holidays Limited, which includes the Company, is discussed in the Business Review within the First Choice Holidays Limited annual report, which does not form part of this report

Directors

The directors of the Company who served during the period and as at the date of this report are

D Blastland
E A Di San Marzano
J S Hill
R Prosser
I D Simkins

Directors' insurance

The intermediate parent company First Choice Holidays Limited maintains Directors' & officer's Liability insurance policies on behalf of the Directors of the Company for all wrongful acts up to 3 September 2007 A policy in the name of TUI Travel PLC the new parent company covers any wrongful acts occurring after that date

Statement as to disclosure of information to auditors

The directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information

Auditors

In accordance with S384 of the Companies Act 1985, a resolution for the reappointment of KPMG PLC as auditors of the Company is to be proposed at the Annual General Meeting

By order of the Board

I D Simkins
Director

Dated 6 March 2008

TUI Travel House
Crawley Business Quarter
Fleming Way
Crawley
West Sussex
RH10 9QL

Statement of Directors' Responsibilities in respect or the Directors' report and the financial statements for the 11-month period ending 30 September 2007

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

KPMG Audit Plc
PO Box 695 8 Salisbury Square
London EC4Y 8BB

Independent auditor's report to the members of Citalia Holidays Limited

We have audited the financial statements of Citalia Holidays Limited for the 11-month period ended 30 September 2007 which comprise the profit and loss account, the balance sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4 Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of its profit for the 11-month period then ended, the financial statements have been properly prepared in accordance with the Companies Act 1985, and the information given in the Directors' Report is consistent with the financial statements

KPMG Audit PLC

KPMG Audit Plc
6 March 2008

Profit and loss account
For the 11-month period ended 30 September 2007

	Note	11-month period ended 30 September 2007	Year ended 31 October 2006
		£	£
Turnover*	1	**36,497,793**	33,245,949
Cost of sales		**(29,717,055)**	(26,953,372)
Gross profit		**6,780,738**	6,292,577
Administrative expenses		**(4,245,203)**	(3,748,049)
Operating profit		**2,535,535**	2,544,528
Loss on disposal of fixed assets	2	-	(336,819)
Profit before interest		**2,535,535**	2,207,709
Interest payable and similar charges	5	-	(13,418)
Profit on ordinary activities before taxation	2	**2,535,535**	2,194,291
Tax on profit on ordinary activities	7	**(658,760)**	(1,457,030)
Profit for the financial period/year	14	**1,876,775**	737,261

All results for the current and comparative year relate to continuing operations

There are no other recognised gains or losses arising in the current period or prior year Consequently no statement of total recognised gains or losses has been presented

A note on historical profits and losses has not been included as part of these financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis

*2006 turnover has been restated – see note 1

Balance sheet
At 30 September 2007

	Note	30 September 2007 £	31 October 2006 £
Fixed assets			
Intangible assets	6	**305,751**	323,178
Tangible assets	8	**2,574**	42,623
Investments	9	**20,000**	20,000
		328,325	385,801
Current assets			
Debtors	10	**12,240,735**	4,407,220
Cash at bank and in hand		**8,415,593**	12,136,926
		20,656,328	16,544,146
Creditors: amounts falling due within one year	11	**(12,594,516)**	(10,403,798)
Net current assets		**8,061,812**	6,140,348
Total assets less current liabilities		**8,390,137**	6,526,149
Provisions	12	**-**	(12,787)
Net assets		**8,390,137**	6,513,362
Capital and reserves			
Called up share capital	13	**3,760,000**	3,760,000
Profit and loss account	14	**4,630,137**	2,753,362
Equity shareholders' funds	15	**8,390,137**	6,513,362

These financial statements were approved by the board of directors on 6 March 2008 and were signed on its behalf by

Ian Simkins

I D Simkins
Director

Notes forming part of the financial statements for the 11-month period ended 30 September 2007

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company 's financial statements, except as noted below

Change in accounting presentation

To better reflect the fair value of consideration received, a change in accounting presentation has been adopted in these financial statements to report turnover without deducting sales commissions payable Previously, turnover has been reported after deduction of sales commissions payable As a result of this change, turnover and cost of sales in the year ended 31 October 2006 have been restated and have been increased by £2,686,810 each

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

Group financial statements

The Company is exempt from preparing consolidated financial statements under S228 of the Companies Act 1985 as it is part of a larger company, registered in England and Wales, which is preparing consolidated financial statements drawn up at the same date. These financial statements therefore present information about the Company as an individual undertaking and not about the Group Consequently, investments in subsidiaries are recorded at cost less amounts written off Provisions are made for the permanent reductions in value Only dividends received and receivable are credited to the Company's profit and loss account

Turnover

Turnover, which relates to continuing activities only, represents total invoiced sales in the United Kingdom in respect of tours and travel services for which the Company acts as principal

Revenue is recognised on the date of departure and the related costs of the holidays are charged to the profit and loss account on the same basis

Turnover excludes intra-group transactions and is stated after deduction of trade discounts and sales taxes

Marketing costs and direct sales costs

Marketing, advertising and other promotional costs, including those related to the production of brochures, are expensed as incurred

Notes (continued)

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

Depreciation is provided so as to write off the cost of fixed assets in equal annual instalments over their estimated useful lives The years used are as follows

Land	-	nil
Freehold buildings	-	50 years
Office equipment	-	5 years
Motor vehicles	-	3 years
Computers	-	3 years

Dividends

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

Goodwill

Purchased goodwill is amortised to nil by equal instalments over its estimated useful life, normally 20 years

Deferred taxation

Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date Timing differences arise when items of income and expenditure are included in tax computations in periods different from their inclusion in the financial statements

Operating leases

Rentals payable and receivable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease

Foreign currencies

Transactions in overseas currencies are translated at the exchange rate ruling on the date of the transaction or, where forward cover has been arranged, at the contractual rate Monetary assets and liabilities denominated in a foreign currency are retranslated at the rate of exchange ruling at the balance sheet date or at the forward contractual rate and any exchange differences arising are taken to the profit and loss account in the season to which the contract relates

Notes (continued)

2 Profit on ordinary activities before taxation

	11-month period ended 30 September 2007	Year ended 31 October 2006
	£	£
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of owned fixed assets	**40,049**	71,217
Loss on disposal of freehold property	-	336,819
Amortisation of goodwill	**17,427**	19,010
Exchange Loss	**54**	55

In 2006 and 2007 auditor's remuneration was paid by another Group company The audit fee relating to the Company was as follows

	£	£
Fees for the audit of the Company	**13,000**	13,000

Fees paid to the Company's auditors, KPMG Audit Plc and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements This is on the basis that such non-audit fees are disclosed in the consolidated financial statements of the Company's intermediate parent company First Choice Holidays Limited

3 Directors' remuneration

All directors are remunerated by First Choice Holidays & Flights Limited A management charge is made by First Choice Holidays & Flights Limited to cover the Company's share of such operating costs

4 Employees

All staff are employees of First Choice Holidays & Flights Limited A management charge is made by First Choice Holidays & Flights Limited to cover the Company's share of staff and other operating costs

5 Interest payable

	11-month period ended 30 September 2007	Year ended 31 October 2006
	£	£
Interest payable on bank loans and overdrafts	-	13,418

Notes (continued)

6 Intangible fixed assets

	Total £
Cost	
At 31 October 2006	380,209
At 30 September 2007	380,209
Amortisation	
At 31 October 2006	57,031
Provided during the period	17,427
At 31 October 2006	74,458
Net book value	
At 30 September 2007	**305,751**
At 31 October 2006	323,178

Intangible fixed assets represent goodwill arising on the acquisition of the business and net assets of Exclusive Destinations Limited Positive goodwill is amortised to nil by equal instalments over its useful economic life of 20 years

7 Taxation

The tax charge in the financial statements can be summarised as follows

	11-month period ended 30 September 2007 £	Year ended 31 October 2006 £
(i) Analysis of charge in period		
Group relief		
Current year charge on profits of the period	**753,011**	1,058,374
Adjustments in respect of prior periods		
- permanent	**(3,862)**	403,569
Total current tax	**749,149**	1,461,943
Deferred tax		
Origination and reversal of timing differences		
- current period	**12,019**	59,821
- effect of reduction in UK tax from 30% to 28%	**6,401**	-
- adjustment in respect of previous periods	**(108,809)**	(64,734)
Total deferred tax	**(90,389)**	(4,913)
Tax on profit on ordinary activities	**658,760**	1,457,030

Notes (continued)

7 Taxation (continued)

(ii) Factors affecting the current tax charge for period

The current tax charge for the period is lower (2006 higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	11-month period ended 30 September 2007	Year ended 31 October 2006
	£	£
Profit on ordinary activities before tax	**2,535,535**	2,194,291
Profit on ordinary activities at the standard rate of UK corporation tax of 30% *(2006 30%)*	**760,661**	658,287
Effect of		
- Expenses not deductible for tax purposes	**5,227**	5,704
- Transfer pricing adjustment	-	357,881
- Capital loss on disposal of fixed assets	-	96,323
- Capital allowances for period in excess of depreciation	**(12,877)**	(5,837)
- Other short term timing differences	-	(53,984)
- Adjustment in respect of prior years - transfer pricing	**(3,862)**	379,690
- Adjustment in respect of prior years - other	-	23,879
Current tax charge for the period	**749,149**	1,461,943

(iii) Factors affecting the future tax charge

The total tax charge in future years is anticipated to follow the standard rate of UK corporate taxation The statutory rate of UK corporation tax will reduce to 28% with effect from 1 April 2008

Notes (continued)

8 Tangible fixed assets

	Office equipment & motor vehicles £
Cost	
At 31 October 2006	291,742
Disposals	(11,584)
At 30 September 2007	280,158
Depreciation	
At 31 October 2006	249,119
Provided during the period	40,049
Disposals	(11,584)
At 30 September 2007	277,584
Net book value	
At 30 September 2007	**2,574**
At 31 October 2006	42,623

9 Investment in subsidiary undertakings

The investments comprise

	30 September 2007 £	31 October 2006
Citalia Transport Limited, 20,000 ordinary shares of £1 each	**20,000**	20,000

The Company owns the whole of the issued share capital of Citalia Transport Limited, a company registered in England and Wales The principal activity of the Company is the purchase of airline tickets and other services, which are sold to Citalia Holidays Limited for amounts sufficient to cover costs incurred

Notes (continued)

10 Debtors

	30 September 2007 £	31 October 2006 £
Trade debtors	**499,705**	244,486
Amounts owed by group undertakings	**11,171,084**	3,850,000
Other debtors and advances	**1,000**	1,200
Deferred tax asset (note 12)	**77,602**	-
Prepayments and accrued income	**491,344**	311,534
	12,240,735	4,407,220

The deferred tax asset is anticipated to be recovered after more than one year

11 Creditors: amounts falling due within one year

	30 September 2007 £	31 October 2006 £
Trade creditors	**271,277**	3,714,322
Group relief payable	**1,977,210**	2,423,280
Amounts owed to group undertakings	**442,668**	91,451
Amounts owed to subsidiary undertakings	**701,676**	701,676
Accruals and deferred income	**7,156,821**	2,768,011
Client money received in advance	**2,044,864**	705,058
	12,594,516	10,403,798

Notes (continued)

12 Deferred tax (asset)/liability

	2007 £
Deferred tax liability at 1 November 2006	12,787
Charged in the period	12,019
Over provision relating to prior years	(108,809)
Effect of reduction in UK corporation tax rate from 30% to 28%	6,401
Deferred tax asset at 30 September 2007	(77,602)

The net deferred tax asset as at 30 September 2007 (31 October 2006 liability) is as follows

	30 September 2007 £	31 October 2006 £
Accelerated capital allowances	**(77,602)**	12,787

13 Called up equity share capital

	30 September 2007 £	31 October 2006 £
Authorised, allotted, called up and fully paid		
3,760,000 ordinary shares of £1 each	**3,760,000**	3,760,000

14 Reserves

	Profit and loss account £
At 1 November 2006	2,753,362
Profit for the period	1,876,775
At 30 September 2007	**4,630,137**

15 Reconciliation of movements in equity shareholders' funds

	30 September 2007 £	31 October 2006 £
Profit for the financial period/ year	**1,876,775**	737,261
Opening equity shareholders' funds	**6,513,362**	5,776,101
Closing equity shareholders' funds	**8,390,137**	6,513,362

Notes (continued)

16 Commitments

At 30 September 2007 the Company had the following financial commitments

	30 September 2007 £	31 October 2006 £
Contracted		
Foreign currency purchases	**15,842,747**	12,108,378
Hotel costs	**631,482**	625,135
	16,474,229	12,733,513

The above commitments are all due within one year
The Company does not have any capital commitments (2006 £nil)

17 Pension schemes

The intermediate parent company First Choice Holidays Limited operates a defined contribution pension scheme for certain of its employees The assets of the scheme are held separately from those of the Company by an independent professional company There were no accrued or prepaid pension contributions at 31 October 2006 (2006 £nil)

18 Related party disclosures

The Company has taken advantage of the exemption contained in Financial Reporting Standard No 8 "Related Party Disclosures" as it is a wholly owned subsidiary of First Choice Holidays Limited (to 3 September 2007) and of TUI AG (from 3 September 2007) Therefore the Company has not disclosed related party transactions or balances with entities that form part of the Group headed by First Choice Holidays Limited or TUI AG

19 Ultimate parent company

Until 3 September 2007 First Choice Holidays Limited, a company registered in England and Wales was the ultimate parent company With effect from 3 September 2007, the ultimate parent company is TUI AG – a company registered in Berlin and Hanover (Federal Republic of Germany)

For the 11-month period ended 30 September 2007 First Choice Holidays Limited is the parent undertaking of the largest and smallest group of the Company is a member and for which consolidated financial statements are drawn up For future accounting periods, the parent undertaking of the largest and smallest group of which Citalia Holidays Limited is a member and for which consolidated financial statements are drawn up will be TUI Travel PLC

Copies of the both the First Choice Holidays Limited and TUI Travel PLC financial statements are available from the Company Secretary, TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex, RH10 1QL