

CITALIA HOLIDAYS LIMITED

**Directors' report and financial statements
for the year ended 30 September 2008**

Registered number 446617

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Directors' report for the year ended 30 September 2008

The Directors present their report and the audited financial statements Citalia Holidays Limited for the year ended 30 September 2008.

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 £2,458,282 (*11-month period ended 30 September 2007: £2,535,535*). The results for the period are shown in the profit and loss account on page 6. The Directors paid an interim dividend of £ 6,159,000 (*11-month period ended 30 September 2007: £Nil*).

The package holiday market during 2008 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 2009 and beyond by capitalising on the strength of the Citalia brand and driving margin improvement.

The Directors manage the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in the TUI Travel PLC group of companies. The Directors of the Group 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 faced by the Company are:

- Economic downturn. Subsequent to the year end the current economic environment is increasingly challenging. The Directors consider that the Company has, within the context of the TUI Travel Group, appropriate planning processes in place to address this future uncertainty and the Directors continue to monitor the trading outlook carefully and take appropriate mitigating action.
- 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 with a major supplier were lost or damaged 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.
- Environmental risk. As a tour operator we use aircraft to take people on holidays. 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.

CITALIA HOLIDAYS LIMITED

Directors' report for the year ended 30 September 2008

- **Financial risk.** The treasury function is managed centrally in the TUI Travel group and supports the business activities and financial risks faced by the Company. The directors identify, monitor and manage the financial risks faced by the Company including foreign exchange.

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 UK & Ireland Specialist Sector of TUI Travel PLC, which includes the Company, is discussed in the Business Review within the TUI Travel PLC annual report, which does not form part of this report.

Directors

The Directors of the Company at the date of this report are:

D Blastland
E A Di San Marzano
D McGraynor (appointed 16 October 2008)
R Prosser
I D Simkins

Mr J Hill resigned on 16 October 2008

Directors' insurance

The intermediate parent company TUI Travel PLC maintains Directors' & Officer's Liability insurance policies on behalf of the Directors of the Company.

Policy and practice on payment of suppliers

Due to the nature of the Company's operations and common to the industry as a whole, payments are often made in advance of the provision of goods and services. It is Company policy that payments to suppliers, whether in advance or after the provision of the goods or services, are made on the basis of the terms that have been agreed with them. At the year end, the number of creditor days outstanding was 8 days (11-month period ended 30 September 2007: 2 days).

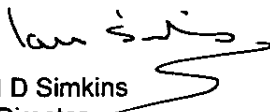
Statement as to disclosure of information to auditors

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's auditors are aware of that information.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office.

By order of the Board


I D Simkins
Director

Dated: 2009

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

CITALIA HOLIDAYS LIMITED

Statement of Directors' Responsibilities in respect of the Directors' report and the financial statements for the year ended 30 September 2008

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 Company's 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 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 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.

Independent auditors' report to the members of Citalia Holidays Limited

We have audited the financial statements of Citalia Holidays Limited for the year ended 30 September 2008 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 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 2008 and of its profit for the year then ended; - the financial statements have been properly prepared in accordance with the Companies Act 1985; - the information given in the Directors' Report is consistent with the financial statements.

KPMG Auditor Mc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square,
London, EC4Y 8BB

1 April 2009

CITALIA HOLIDAYS LIMITED

Profit and loss account for the year ended 30 September 2008

	<i>Note</i>	Year ended 30 September 2008 £	11-month period ended 30 September 2007 £
Turnover	1	43,644,780	36,497,793
Cost of sales		(35,930,569)	(29,717,055)
Gross profit		7,714,211	6,780,738
Administrative expenses		(5,255,929)	(4,245,203)
Profit on ordinary activities before taxation	2	2,458,282	2,535,535
Tax on profit on ordinary activities	6	(723,963)	(658,760)
Profit for the year / period	14	1,734,319	1,876,775

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.

The Company has no other recognised gains or losses other than disclosed in the profit and loss account. Accordingly a statement of total recognised gains and losses is not presented.

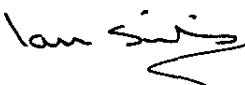
The results stated above are all derived from continuing operations.

CITALIA HOLIDAYS LIMITED

Balance sheet at 30 September 2008

	Note	30 September 2008 £	30 September 2007 £
Fixed assets			
Intangible assets	5	286,741	305,751
Tangible assets	7	-	2,574
Investments	8	80,000	20,000
		366,741	328,325
Current assets			
Debtors	9	7,673,457	12,240,735
Cash at bank and in hand		10,847,104	8,415,593
		18,520,561	20,656,328
Creditors: amounts falling due within one year	10	(14,921,846)	(12,594,516)
Net current assets		3,598,715	8,061,812
Total assets less current liabilities		3,965,456	8,390,137
Net assets		3,965,456	8,390,137
Capital and reserves			
Called up share capital	12	3,760,000	3,760,000
Profit and loss account	13	205,456	4,630,137
Equity shareholders' funds	14	3,965,456	8,390,137

These financial statements were approved by the board of directors on its behalf by:


I D Simkins
Director

2009 and were signed on

Notes forming part of the financial statements for the year ended 30 September 2008

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.

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 of companies of which the company is the parent company. 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.

Related party transactions

The Company has taken advantage of the exemption contained in Financial Reporting Standard No. 8 "Related Party Disclosure" as it is a wholly-owned subsidiary of TUI Travel PLC. Therefore the Company has not disclosed transactions or balances with entities that form part of the Group headed by TUI Travel PLC.

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 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 forming part of the financial statements for the year ended 30 September 2008 (cont.)

1 Accounting policies (continued)

Tangible fixed assets and depreciation

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

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 or credited 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 forming part of the financial statements for the year ended 30 September 2008 (cont.)

2 Profit on ordinary activities before taxation

	Year ended 30 September 2008 £	11-month period ended 30 September 2007 £
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Depreciation of owned fixed assets	2,574	40,049
Amortisation of goodwill	19,011	17,427
Exchange loss	83	54
	<u> </u>	<u> </u>

In 2007 and 2008 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	<u>13,520</u>	<u>13,000</u>

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 TUI Travel PLC.

3 Directors' remuneration

All Directors are remunerated by TUI UK Limited. An amount has been recharged to the Company where appropriate.

4 Employees

All staff are employees of TUI UK Limited. A management charge is made by TUI UK Limited to cover the Company's share of staff and other operating costs.

Notes forming part of the financial statements for the year ended 30 September 2008 (cont.)

5 Intangible fixed assets

	Total £
Cost	
At 30 September 2007	380,209
At 30 September 2008	380,209
Amortisation	
At 30 September 2007	74,458
Charge for the year	19,010
At 30 September 2008	93,468
Net book value	
At 30 September 2008	286,741
At 30 September 2007	305,751

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.

6 Taxation

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

	Year ended 30 September 2008 £	11-month period ended 30 September 2007 £
(i) Analysis of charge in year / period		
Current year charge on profits of the year / period	719,162	753,011
Adjustments in respect of prior periods:		
- permanent	28,754	(3,862)
Total current tax	747,916	749,149
Deferred tax:		
Origination and reversal of timing differences:		
- current period	(721)	12,019
- effect of reduction in UK tax from 30% to 28%	-	6,401
- adjustment in respect of previous periods	(23,232)	(108,809)
Total deferred tax	(23,953)	(90,389)
Tax on profit on ordinary activities	723,963	658,760

Notes forming part of the financial statements for the year ended 30 September 2008 (cont.)

6 Taxation (continued)

(ii) Factors affecting the current tax charge for year / period

The current tax charge for the year / period is higher (2007:lower) than the standard rate of corporation tax in the UK (29%). The differences are explained below:

	Year ended September 2008 £	11-month period ended 30 September 2007 £
Profit on ordinary activities before tax	2,458,282	2,535,535
Profit on ordinary activities at the standard rate of UK corporation tax of 29% (2007: 30%)	712,902	760,661
Effect of:		
- Expenses not deductible for tax purposes	5,513	5,227
- Capital allowances for period in excess of depreciation	747	(12,877)
- Adjustment in respect of prior years - transfer pricing	28,754	(3,862)
Current tax charge for the period	747,916	749,149

(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.

Notes forming part of the financial statements for the year ended 30 September 2008 (cont.)

7 Tangible fixed assets

	Office equipment & motor vehicles £
Cost	
At 30 September 2007	280,158
Disposals	(280,158)
At 30 September 2008	-
Depreciation	
At 30 September 2007	277,584
Charge for the year	2,574
Disposals	(280,158)
At 30 September 2008	-
Net book value	
At 30 September 2008	-
At 30 September 2007	2,574

8 Investment in subsidiary undertakings

The investments comprise:

	30 September 2008 £	30 September 2007 £
Citalia Transport Limited, 80,000 ordinary shares of £1 each (2007 : 20,000 ordinary shares of £1 each)	80,000	20,000

On 30 September 2008, 60,000 additional ordinary shares of £1 each were allotted to the company in Citalia Transport Limited.

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 forming part of the financial statements for the year ended 30 September 2008 (cont.)

9 Debtors

	30 September 2008 £	30 September 2007 £
Trade debtors	344,629	499,705
Amounts owed by group undertakings	6,703,470	11,171,084
Other debtors and advances	42,541	1,000
Deferred tax asset (note 11)	101,555	77,602
Prepayments and accrued income	481,262	491,344
	<u>7,673,457</u>	<u>12,240,735</u>

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

10 Creditors: amounts falling due within one year

	30 September 2008 £	30 September 2007 £
Trade creditors	983,230	271,277
Group relief payable	2,037,094	1,977,210
Amounts owed to group undertakings	402,037	442,668
Amounts owed to subsidiary undertakings	1,418,549	701,676
Accruals and deferred income	7,645,508	7,156,821
Client money received in advance	2,415,428	2,044,864
	<u>14,921,846</u>	<u>12,594,516</u>

11 Deferred tax asset

	2008 £
Deferred tax asset at 1 October 2007	(77,602)
Charged in the year	(721)
Under provision relating to prior years	(23,232)
Deferred tax asset at 30 September 2008	<u>(101,555)</u>

The net deferred tax asset as at 30 September 2008 (30 September 2007: asset) is as follows:

	30 September 2008 £	30 September 2007 £
Accelerated capital allowances	<u>(101,555)</u>	<u>(77,602)</u>

CITALIA HOLIDAYS LIMITED

Notes forming part of the financial statements for the year ended 30 September 2008 (cont.)

12 Called up equity share capital

	30 September 2008 £	30 September 2007 £
Authorised, allotted, called up and fully paid:		
3,760,000 ordinary shares of £1 each	3,760,000	3,760,000

13 Reserves

	Profit and loss account £
At 1 October 2007	4,630,137
Profit for the financial year	1,734,319
Dividend	(6,159,000)
At 30 September 2008	205,456

14 Reconciliation of movements in equity shareholders' funds

	30 September 2008 £	30 September 2007 £
Profit for the financial year / period	1,734,319	1,876,775
Dividends	(6,159,000)	-
Opening equity shareholders' funds	8,390,137	6,513,362
Closing equity shareholders' funds	3,965,456	8,390,137

15 Commitments

At 30 September 2008 the Company had the following financial commitments

	30 September 2008 £	30 September 2007 £
Contracted		
Foreign currency purchases	30,134,843	15,842,747
Hotel costs	715,424	631,482
	30,850,267	16,474,229

The above commitments are all due within one year.

The Company does not have any capital commitments (2007: £nil).

Notes forming part of the financial statements for the year ended 30 September 2008 (cont.)

16 Pension schemes

The intermediate parent company TUI Travel 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 30 September 2008 (2007: £nil).

17 Ultimate parent company

The Company is a subsidiary undertaking of TUI AG – a company registered in Berlin and Hanover (Federal Republic of Germany), which is the ultimate parent company. The intermediate holding company is TUI Travel PLC. The immediate parent undertaking is Maraheath Limited.

The largest group in which the results of the Company are consolidated is that headed by TUI AG. The smallest group in which the results of the Company are consolidated is that headed by TUI Travel PLC, incorporated in the United Kingdom. No other group financial statements include the results of the Company

Copies of the TUI Travel PLC financial statements are available from the TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex, RH10 9QL. Copies of the TUI AG financial statements are available from Investor Relations, TUI AG, Karl-Wiechert-Allee 4, D-30625, Hanover or on TUI website: www.tui-group.com.