SUNSHINE CRUISES LIMITED

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS

for the year ended 30 September 2010

Company number 3991465

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of Sunshine Cruises Limited ("the Company") for the year ended 30 September 2010

Principal activity

The Company's principal activity during the year continued to be that of a cruise operator

Results and dividends

The Company's loss on ordinary activities before taxation for the year ended 30 September 2010 was £15,081,000 (2009 £8,293,000 loss) including £15,269,000 impairment of the cruise ship, following a review of the Island Escape brand (Note 8) No dividends were paid during the year (2009 £nil) and the Directors do not recommend the payment of a final dividend

As a result of the unprecedented closure of UK and European airspace, following the eruption of the Eyjafjallajokull volcano in Iceland in April 2010, the Company incurred welfare costs to accommodate and repatriate the customers who were affected by the closure of European airspace These costs principally included the cost of repatriation of inbound customers During the period of closure and the period to resumption of a full flying schedule, from 15 April to circa 23 April 2010, the Company's ability to earn revenue from cruise holidays was also severely impacted, and unrecoverable fixed costs were incurred relating to operating the cruise ships due to the enforced cancellation of outbound passengers resulting from the airspace closure The total costs incurred amounted to £2,500,000

Business review

During the year, the Directors managed the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in the TUI Travel PLC group of companies ("the Group") The Company's risks and uncertainties are reviewed within the context of the Group and the Directors believe that this review process is appropriate given that the Company's operations are managed in co-ordination with those of the TUI Travel Mainstream Sector UK & Ireland businesses

Principal risks and uncertainties

The principal risks and uncertainties which are common to the Group and the Company are

- **Economic downturn.** The current economic environment remains challenging and customer demand remains under pressure The Directors consider the Company has, within the context of the Group, appropriate planning processes in place and continue to monitor the trading outlook Appropriate mitigating action is taken where necessary to maximise profitability, such as maintaining flexible pricing, managing capacity commitments and focusing on cost control

- **Climate change risk** As a tour operator we use our Group's aircraft to take people on holidays around the world We recognise that we operate in a carbon-intensive industry The Group has a carbon management strategy to reduce the Group's greenhouse gas emissions from all of its divisions and is preparing for regulatory proposals on climate change

- **Geo-political events and natural disasters** The nature of the Company's business means that the Company is at risk of geo-political events or natural disasters It is for this reason that the Company ensures it operates with a flexible and efficient business model and minimises reliance on any one destination

DIRECTORS' REPORT (CONTINUED)

Business review (continued)

Principal risks and uncertainties (continued)

- **Heath and safety.** Accidents or injuries to our employees or customers whilst in our care as a result of failure in our due diligence process or supplier negligence could have a significant effect on the Company, its brand and ultimately, customer demand The Company takes a risk-based approach to Health & Safety due diligence including destination based quality assessments and employing industry-leading expertise to set policy and provide guidance

- **Commercial relationships.** The Company has well established and close relationships with its customers and suppliers and spreads its risk by not placing over-reliance on any one supplier in any particular area However, if a relationship were lost or damaged with a major supplier this could have a detrimental effect on the business The management team meets regularly with suppliers to maintain good working relationships and to understand the supplier's financial position

- **Information technology.** The Company is heavily reliant upon information technology Investment is being made to ensure that there are 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 for which a selling system is unavailable for in the event of such a failure

- **Financial risk.** General cost base increases together with unhedged foreign exchange rates and fuel prices have the potential to materially reduce the Company's margin The treasury function is managed centrally in the Group and supports the business activities and financial risks faced by the Company This support includes setting and monitoring hedging policies in the Group, centralising the Group's cash management systems, reporting and monitoring daily cash balances and forecasting cash requirements for the foreseeable future

As the Directors manage the Company in co-ordination with the management of the TUI Travel Mainstream Sector UK & Ireland 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 positioning of the Mainstream Sector of the Group, which includes the Company, is discussed in the Business Performance section within the TUI Travel PLC annual report, which does not form part of this report The TUI Travel PLC annual report is available from the address shown in Note 16

Funding and liquidity

The Directors have considered the funding and liquidity position of the Company and of its intermediate parent company TUI Travel PLC Following this review, the Directors consider it appropriate to continue to prepare the financial statements on the going concern basis

Directors

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

F M Ellacott (appointed 28 March 2011)
A L John

The other Director who served during the year was

D Selby (resigned 28 March 2011)

DIRECTORS' REPORT (CONTINUED)

Policy and practice on payment of creditors

It is the Company's policy wherever possible to agree terms of payment with suppliers in advance to ensure that they are made aware of the terms of payment and both parties abide by those terms 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 The Company has not calculated the average creditor settlement period as, due to the differing terms in force, any such average would not be meaningful

Directors' insurance

The intermediate parent company, TUI Travel PLC, maintains Directors' & Officers' Liability insurance policies on behalf of the Directors of the Company

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

By Order of the Board

F M Ellacott
Director

Dated 31 March 2011

Company Number 3991465

Statement of Directors' Responsibilities in respect of the Directors' report and the financial statements for the year ended 30 September 2010

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they 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,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 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

Report of the independent auditors to the members of Sunshine Cruises Limited

We have audited the financial statements of Sunshine Cruises Limited for the year ended 30 September 2010 set out on pages 7 to 15 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 September 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Report of the independent auditors to the members of Sunshine Cruises Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mike Harper

Mike Harper (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

31 March 2011

PROFIT AND LOSS ACCOUNT
for the year ended 30 September 2010

	Note	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Turnover	1, 2	**60,483**	77,884
Cost of sales		**(68,085)**	(72,651)
Gross (loss) / profit		**(7,602)**	5,233
Other operating expenses		**(7,914)**	(14,740)
Operating loss	3	**(15,516)**	(9,507)
Amounts written off investments		-	1,200
Loss on ordinary activities before interest		**(15,516)**	(8,307)
Interest receivable and similar income	5	**460**	66
Interest payable and similar charges	6	**(25)**	(52)
Loss on ordinary activities before taxation		**(15,081)**	(8,293)
Tax on loss on ordinary activities	7	**4,187**	2,458
Loss for the financial year	13	**(10,894)**	(5,835)

The notes on pages 9 to 15 form part of these financial statements

The results stated above are all derived from continuing operations

Included in cost of sales for the current year is a charge of £15,269,000 for the impairment of the cruise ship (Note 8)

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

The Company has no recognised gains and losses other than those included in the profit and loss account Accordingly, no statement of total recognised gains and losses is presented

BALANCE SHEET
At 30 September 2010

	Note	30 September 2010 £'000	30 September 2009 £'000
Fixed assets			
Tangible assets	8	**23,340**	42,837
Current assets			
Debtors	9	**25,311**	26,910
Cash at bank and in hand		**4,958**	2,813
		30,269	29,723
Creditors amounts falling due within one year	10	**(6,036)**	(14,093)
Net current assets		**24,233**	15,630
Total assets less current liabilities		**47,573**	58,467
Capital and reserves			
Called up share capital	12	**64,000**	64,000
Profit and loss account	13	**(16,427)**	(5,533)
Shareholders' funds - equity	14	**47,573**	58,467

The notes on pages 9 to 15 form part of these financial statements

The financial statements were approved by the Board on 31 March 2011 and signed on their behalf by

F M Ellacott
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010

1. Accounting policies

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

Basis of preparation

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

Cash flow

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

Turnover

Turnover represents the aggregate amount of revenue from cruise operations and travel agency commissions Revenue from cruise operations is recognised on the date of departure, revenue from travel agency commissions is recognised when the final payment is made

Marketing and other direct sales costs

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

Tangible assets and depreciation

Tangible assets are recorded at cost and are depreciated on a straight line basis to their residual value over their estimated useful lives as follows

Owned ship	20 years
Owned ship fixtures and fittings	3 – 10 years
Computer equipment	3 – 6 years

Useful lives are estimated taking into account the rate of technological change and intensity of use of the assets An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the profit and loss account

Taxation

UK Corporation Tax is provided on amounts expected to be paid (or recovered) using the tax rates and laws enacted, or substantively enacted, at the balance sheet date

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010 (CONTINUED)

1. Accounting policies (continued)

Taxation (continued)

Except as otherwise required by accounting standards, full provision without discounting is made for all deferred taxation 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 A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be used

The UK Government announced a phased reduction in the main UK corporation tax rate from 28% to 24%, with the first 1% reduction taking effect from 1 April 2011 (and substantively enacted on 20 July 2010) Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on the rates that have been enacted or substantively enacted at the balance sheet date Therefore, at 30 September 2010, deferred tax assets and liabilities have been calculated based on a rate of 27%, where the temporary difference is expected to reverse after 1 April 2011 No account will be taken of the further 3% reduction in tax rates until substantive enactment of these changes, however it is estimated that this will not have a material effect on the Company

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

2. Segmental analysis

The Company has one class of business, namely acting as a cruise operator All turnover originates within the UK

3. Operating loss

	Year ended 30 September 2010	Year ended 30 September 2009
	£'000	£'000
Operating loss is stated after charging		
Depreciation – owned assets	**5,990**	4,869
Impairment charge in respect of tangible assets (Note 8)	**15,269**	-
Operating lease rentals for plant and machinery	-	2,900
Incremental costs caused by volcanic ash disruption	**2,500**	-
One-off items relating to early termination of the lease for the Island Star		
- Write-off of stock	-	1,974
- Accelerated depreciation	-	5,424
- Redundancy costs	-	757

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010 (CONTINUED)

3. Operating loss (continued)

As a result of the unprecedented closure of UK and European airspace, following the eruption of the Eyjafjallajokull volcano in Iceland in April 2010, the Company incurred welfare costs to accommodate and repatriate the customers who were affected by the closure of European airspace and unrecoverable fixed costs relating to operating the cruise ships due to the enforced cancellation of outbound passengers resulting from the airspace closure The total costs incurred amounted to £2,500,000

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Fees for the audit of the Company	**23**	23

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, TUI Travel PLC, which are available from the address shown in Note 16

4. Employees' and Directors' remuneration

In both the current and prior year, the Company had no employees

The Directors received no remuneration for their services to the Company during the year (2009 £nil)

5 Interest receivable and similar income

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Other interest receivable	**460**	66

6. Interest payable and similar charges

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Other interest payable	**(25)**	**(52)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010 (CONTINUED)

7. Taxation

(i) Analysis of tax credit in year

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Current tax		
Amounts payable to fellow subsidiaries for Group relief	121	18
Adjustment in respect of previous periods	(19)	-
Total current tax	102	18
Deferred tax		
Origination and reversal of timing differences		
- Current year	(4,344)	(2,482)
- Effect of change in tax rates	32	-
- Adjustment in respect of previous periods	23	6
Total deferred tax	(4,289)	(2,476)
Tax credit on loss on ordinary activities	(4,187)	(2,458)

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

The current tax charge for the year (2009 charge) is higher (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%) This is explained as below

	Year ended 30 September 2010 £'000	Year ended 30 September 2009 £'000
Loss on ordinary activities before tax	(15,081)	(8,293)
Loss on ordinary activities at the standard rate of UK corporation tax of 28% (2009 28%)	(4,223)	(2,322)
Effects of		
- Income not taxable	-	(336)
- Expenses not deductible for tax purposes	-	194
- Depreciation for year in excess of capital allowances	5,952	2,883
- Prior year losses utilised	(1,037)	(401)
- Other short term timing differences	(571)	-
- Adjustment to tax charge in respect of previous periods	(19)	-
Current tax charge for year	102	18

(iii) Factors affecting the future tax charge

The rate of taxation is expected to follow the standard rate of UK corporation tax in future periods after taking into account expenditure not deductible for taxation and any non-taxable income The statutory rate of UK corporation tax is reduced to 27% with effect from 1 April 2011

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010 (CONTINUED)

8. Tangible fixed assets

	Owned ship	Owned ship: fixtures & fittings £'000	Computer equipment £'000	Total £'000
Cost				
1 October 2009	69,493	11,216	1,531	82,240
Additions	-	1,762	-	1,762
30 September 2010	**69,493**	**12,978**	**1,531**	**84,002**
Depreciation:				
1 October 2009	(29,860)	(8,068)	(1,475)	(39,403)
Charge for the year	(3,417)	(2,517)	(56)	(5,990)
Provision for impairment	(15,269)	-	-	(15,269)
30 September 2010	**(48,546)**	**(10,585)**	**(1,531)**	**(60,662)**
Net book value·				
30 September 2010	**20,947**	**2,393**	**-**	**23,340**
30 September 2009	39,633	3,148	56	42,837

Following a review of the Island Escape brand, it was decided that the ship's carrying value on the balance sheet had been impaired Consequently, an impairment charge of £15,269,000 (2009 £nil) was applied to the Island Escape ship

9. Debtors

	30 September 2010 £'000	30 September 2009 £'000
Trade debtors	**1,377**	15,992
Amounts owed by Group undertakings	**17,261**	3,024
Group relief receivable	**5,176**	5,278
Deferred tax asset (Note 11)	**874**	-
Other debtors	**610**	404
Prepayments and accrued income	**13**	2,212
	25,311	26,910

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010 (CONTINUED)

10. Creditors: amounts falling due within one year

	30 September 2010 £'000	30 September 2009 £'000
Trade creditors	**(1,113)**	(1,480)
Amounts owed to Group undertakings	**(741)**	(1,566)
Deferred tax liability (Note 11)	-	(3,415)
Other creditors	**(1,112)**	(1,072)
Accruals and deferred income	**(2,800)**	(1,746)
Payments received on account	**(270)**	(4,814)
	(6,036)	(14,093)

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

Payments received on account comprises of revenue received from advanced bookings The cruise ship went into dry dock at the year end for refurbishment Consequently, there were fewer advanced bookings, resulting in a significant decrease in payments received on account

11. Deferred taxation

	30 September 2010 £'000
1 October 2009	(3,415)
Credited to the profit and loss account in the year	4,289
30 September 2010	**874**

The elements of deferred taxation are as follows

	30 September 2010 £'000	30 September 2009 £'000
Fixed asset timing differences	**224**	(5,719)
Unutilised losses	**650**	2,304
Net deferred tax asset / (liability) (Note 9 / Note 10)	**874**	(3,415)

There are no unprovided deferred tax liabilities or unrecognised deferred tax assets at either 30 September 2010 or 30 September 2009

12 Share capital

	30 September 2010 £'000	30 September 2009 £'000
Issued and fully paid		
64,000,002 ordinary shares of £1 each	**64,000**	64,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2010 (CONTINUED)

13. Reserves

	Profit and loss account £'000
At 1 October 2009	(5,533)
Loss for the financial year	(10,894)
At 30 September 2010	**(16,427)**

14. Reconciliation of movement in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total £'000
Opening shareholders' funds	64,000	(5,533)	58,467
Loss for the financial year	-	(10,894)	(10,894)
Closing shareholders' funds	**64,000**	**(16,427)**	**47,573**

All shareholder funds relate to equity interests

15. 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 wholly-owned entities that form part of the Group headed by TUI Travel PLC

16. 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 holding company is First Choice Holidays 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 Company Secretary, TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex RH10 9QL, or from the website www tuitravelplc com Copies of the TUI AG financial statements are available from Investor Relations, TUI AG, Karl-Wiechert-Allee 4, D-30625, Hanover or the TUI website address www tui-group com