

**THOMAS COOK AIRLINES
LIMITED**

Report and Financial Statements

For the year ended 30 September 2016



THOMAS COOK AIRLINES LIMITED

REPORT AND FINANCIAL STATEMENTS (AMENDED)

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THOMAS COOK AIRLINES LIMITED

Officers and professional advisers

DIRECTORS

C Debus
G M Steiro (appointed 1 September 2016)
J M Boler
J A Armstrong
P W Hutchings (appointed 17 June 2016)
Thomas Cook Group Management Services Ltd

COMPANY SECRETARY

S Bradley

REGISTERED OFFICE

Westpoint
Peterborough Business Park
Lynch Wood
Peterborough
PE2 6FZ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Abacus House
Castle Park
Cambridge
CB3 0AN

THOMAS COOK AIRLINES LIMITED

Strategic report

The directors present their strategic report on the affairs of Thomas Cook Airlines Limited (the “Company”), for the year ended 30 September 2016.

BUSINESS REVIEW AND ACTIVITIES

The Company is a wholly owned indirect subsidiary of Thomas Cook Group plc (“the Group”), a company that is listed on the London Stock Exchange.

The principal activity of the Company is that of a charter airline operator, providing flights to the Group UK tour operator and direct to customers through our seat only business.

The results for the Company show a profit on ordinary activities before taxation of £169.9 million (2015: £82.4 million) for the year and sales of £997.0 million (2015: £1,073.9 million). The Company has net assets of £438.3 million (2015: £284.5 million). In 2016 the company recognised exceptional costs of £1.0m (2015: £0.9m) relating to the start-up costs of a new business area.

BUSINESS ENVIRONMENT

During the year, the UK has shown reasonable economic growth. The OECD estimates that GDP growth in 2016 will be 1.8%, reducing to 1.0% in 2017 due to the uncertainty that surrounds the UK’s decision to leave the European Union. The UK’s exit from the EU also brings regulatory changes which may affect our business and as part of the Thomas Cook Group, we are working with governments and EU institutions to make sure that travel remains as seamless as possible after the exit is complete.

Our business has been affected by shocks in destination countries, most notably Turkey, where tourism visitor numbers declined when compared to 2015. In addition, our programme to North Africa continues to be impacted by the closure of Tunisia to UK tourist arrivals, and similarly Sharm el Sheikh airport in Egypt. As a result of these geopolitical events, we acted quickly and decisively to move our volumes to other areas, most notably the Balearic Islands and the Canaries.

STRATEGIC REVIEW AND FUTURE OUTLOOK

The Company continues to be the preferred carrier for the Thomas Cook UK Tour Operator, although our strategy is to reduce our dependence on in-house flying by increasing our seat only business which has increased during the year. As part of this expansion, we have increased the number of Long Haul routes that we provide, introducing routes from Manchester to Boston and Los Angeles in 2016. We have also announced routes from London Gatwick to Cape Town starting in December 2016 and Manchester to San Francisco in Summer 2017.

Thomas Cook Airlines is an integrated part of the Thomas Cook Airline Group where we work together with the other Group Airlines to harmonise our suppliers, maintenance provision and systems. During the year we were part of the Group wide roll out of Alteia, our integrated commercial system. We also work closely across the Airline Group to exploit our strengths to ensure the optimal utilisation of our aircraft and to maximise efficiency.

Over recent years we have invested in the refurbishment of the passenger cabins in our aircraft (including state-of-the-art in-flight entertainment and a luxurious premium cabin on long-haul flights) and our short and medium haul fleet rollover. As a result, we have seen good progress in improving our customer experience which has led to increases in our Net Promoter Score and has been recognised in Thomas Cook Airlines being awarded the “World’s Leading Charter Airline” by the World Travel Awards for the second year running.

Going forward, the Company will continue to optimise our website **thomascookairlines.com**, continue to introduce new long haul routes and continue to make improvements to our fleet of aircraft.

KEY PERFORMANCE INDICATORS (“KPIs”)

The directors of the Group manage the Group’s operations on a segmental basis. For this reason, the Company’s directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the UK segment of the Group, which include the results of the Company, are discussed in the financial review in the Group’s annual report, which does not form part of this report.

THOMAS COOK AIRLINES LIMITED

Strategic report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The directors have identified a number of principal risks and uncertainties that could potentially damage the current business model and future growth opportunities:

- Failure of the Group to deliver strategic and operational targets
- Inability to consistently meet customer expectations
- Failure to develop a diverse route portfolio
- Failure in our digital distribution
- Failure to recruit and retain the right people
- IT architecture is unable to support the needs of the business
- Information security and cyber threats
- Decision or course of actions is perceived negatively by the media
- Cash generation is insufficient to strategically manage debt repayment
- A major health and safety incident impacting our customers or colleagues
- A significant decline in customer demand due to growing threat of terrorism
- The decision of the UK to leave the EU
- Failure to comply with regulatory and legislative requirements

For further information on the potential impact of these risks, and the procedures implemented by the Group to mitigate these risks, please refer to the Group's annual report.

The Company's operations expose it to a variety of financial risks, including the effects of changes in currency exchange rates, credit exposure, price movements, liquidity and interest rates. The directors manage these risks in accordance with policies that have been agreed with the Group. The main risks arising from the Company's financial instruments can be analysed as follows:

Currency risk

The Company is exposed in its trading operations to the risk of changes in currency exchange rates. Appropriate forward contracts and other instruments are used to hedge this exposure in accordance with policies agreed with the UK Group.

Credit risk

The Company's principal financial assets are bank balances, cash and trade and inter-company debtors which represent the Company's maximum exposure to credit risk in relation to financial assets. Risk is managed through internal monitoring processes.

Price risk

The Company is exposed in its trading operations to the risk of changes in fuel prices. Appropriate fuel hedges are established in order to minimise the potential exposure arising from any market fuel price movements following the time that flight schedules are fixed.

Liquidity risk

The Company has appropriate overdraft facilities at Group level in place with various banks where considered necessary. The Company uses its annual budget and planning process to predict and manage expected future liquidity. The liquidity forecast is reviewed and updated on a regular basis.

Interest rate risk

The Company is subject to risks arising from interest rate movements in connection with the cost of servicing its short-term borrowings and the returns on its liquid assets. The risks associated with this are managed at a Group level in conjunction with the liquidity risk.

THOMAS COOK AIRLINES LIMITED

Strategic report (continued)

Cash flow risk

Due to the seasonality of the Group's business cycle and cash flows, a substantial amount of surplus cash accumulates during the summer months. Efficient use and tight control of cash throughout the Group is facilitated by the use of cash pooling arrangements and the net surplus cash is invested by Treasury in high quality, short-term liquid instruments consistent with Board-approved policy, which is designed to mitigate counterparty credit risk. Yield is maximised within the constraints of the policy but returns in general remain low given the low interest rate environment in the UK, the US and Europe.

A 26-week rolling cash forecasting process, driven and embedded by the Group Treasury department and supported by business segments, provides a high degree of confidence in the Group's ability to manage cash effectively and predict accurately the liquidity headroom requirements during the seasonal low point.

The Strategic report has been approved and is signed on behalf of the board by:



J Boler
Director
21 December, 2016

Registered office
Westpoint
Peterborough Business Park
Lynch Wood
Peterborough
PE2 6FZ

THOMAS COOK AIRLINES LIMITED

Directors' report

The directors present their annual report and audited financial statements of Thomas Cook Airlines Limited (the "Company"), for the year ended 30 September 2016.

EQUAL OPPORTUNITIES

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status and offers training and career development for disabled staff. If members of staff become disabled the Company continues employment wherever possible and arranges retraining.

EMPLOYEE INVOLVEMENT

The Company is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when decisions which are likely to affect their interests. In addition, the Company encourages the involvement of employees by means of regular briefing meetings, supplemented by a range of staff magazines. Surveys are held regularly as a means of measuring the effectiveness of the ways in which staff are managed.

DIVIDENDS

During the year to 30 September 2016, no dividend was declared (2015: £100 million).

DIRECTORS

The directors, who served during the year and up to the date of signing the financial statements, except where noted below, were as follows:

C Debus
G M Steiro (appointed 1 September 2016)
J M Boler
J A Armstrong
J K Schildt (resigned 7 July 2016)
P W Hutchings (appointed 17 June 2016)
Thomas Cook Group Management Services Ltd

COMPANY SECRETARY

S Bradley

DIRECTORS' INDEMNITIES

In accordance with its Articles, the Company has made qualifying third party indemnity provisions, to the extent permitted by law, for the benefit of its directors. These were made during the year and remain in force at the date of this report. The Company also maintains Directors' and Officers' liability insurance.

REQUIRED DISCLOSURES INCLUDED ELSEWHERE IN THE FINANCIAL STATEMENTS

Please refer to the Strategic Report for details of financial risks and measures implemented by the Company, as well as more information on future developments.

THOMAS COOK AIRLINES LIMITED

Directors' report (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report and 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PROVISION OF INFORMATION TO AUDITORS

In accordance with Section 418 of the Companies Act 2006, in the case of each director in office at the date the directors' report is approved, the following applies:

- (a) so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

During the year a competitive tender process was completed for the 30 September 2017 audit onwards. The audit committee of Thomas Cook Group Plc recommended Ernst & Young LLP who were approved by the board and are subject to shareholder approval at the company's AGM in 2017. Ernst & Young LLP have expressed their willingness to be appointed as auditors of the Company.

On behalf of the Board,



John Boler
Director

21 December, 2016

Company Registration Number: 02012379

THOMAS COOK AIRLINES LIMITED

Independent auditors' report to the members of Thomas Cook Airlines Limited

Report on the financial statements

Our opinion

In our opinion, Thomas Cook Airlines Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 30 September 2016;
- the Income statement and statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page [6], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

THOMAS COOK AIRLINES LIMITED

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

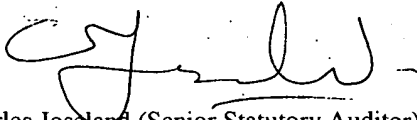
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Charles Joseland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
21 December 2016

THOMAS COOK AIRLINES LIMITED

Income statement for the year ended 30 September 2016

	Notes	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Turnover	3	997,028	1,073,882
Cost of sales	4	(724,044)	(884,747)
Cost of sales – Exceptional	5	(1,026)	(879)
Gross profit		271,958	188,256
Other Operating income		257	-
Operating expenses	6	(97,788)	(96,788)
Operating expenses – Exceptional	5	-	(1,163)
Operating profit		174,427	90,305
Analysed between:			
Operating profit before exceptional items		175,453	92,347
Exceptional items	5	(1,026)	(2,042)
Interest receivable and similar income	7	2,887	2,006
Interest payable and similar charges	8	(7,391)	(9,936)
Profit on ordinary activities before taxation	9	169,923	82,375
Tax of profit on ordinary activities before taxation	11	2,029	2,972
Profit for the financial year		171,952	85,347
Attributable to:			
Equity holders of the parent		171,952	85,347

All revenues and results arose from continuing operations.

THOMAS COOK AIRLINES LIMITED

Statement of comprehensive income for the year ended 30 September 2016

	Note	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Profit for the financial year		171,952	85,347
Other comprehensive income/(expense)			
Actuarial gain on defined benefit pension scheme	24	(19,110)	62,092
Deferred tax - on current year actuarial loss on defined benefit pension scheme	22	907	(13,665)
Other comprehensive income/(expense) for the year, net of tax		(18,203)	48,427
Total comprehensive income for the year		153,749	133,774

None of the items going through other comprehensive income and expense are expected to reverse through profit and loss.

All of the revenue and results arose from continuing activities.

THOMAS COOK AIRLINES LIMITED

Balance sheet as at 30 September 2016

	Note	30 September 2016 £'000	30 September 2015 £'000
Non-current assets			
Tangible assets	12	155,693	183,498
Intangible assets	13	42,834	39,986
Investments	14	1,032	1,032
Pension surplus	24	15,240	21,736
		<u>214,799</u>	<u>246,252</u>
Current assets			
Inventories	15	13,813	11,867
Trade and other receivables – non-current assets	16	4,670	5,873
Trade and other receivables – current assets	16	774,304	562,789
Deferred tax asset	22	12,954	10,018
Derivative financial instruments	23	43,110	-
Cash at bank and in hand	18	35,602	2,590
		<u>884,453</u>	<u>593,137</u>
Total assets		<u>1,099,252</u>	<u>839,389</u>
Creditors: Amounts falling due within one year			
Trade and other payables	17	(422,818)	(303,489)
Borrowings	19	(64,846)	(26,687)
Provisions for other liabilities and charges	21	(38,918)	(56,844)
Derivative financial instruments	23	-	(44,577)
		<u>(526,582)</u>	<u>(431,597)</u>
Net current assets		<u>357,871</u>	<u>161,540</u>
Total assets less current liabilities		<u>572,670</u>	<u>407,792</u>
Creditors: Amounts falling due after more than one year			
Borrowings	19	(17,843)	(33,226)
Provisions for other liabilities and charges	21	(116,518)	(90,048)
		<u>(134,361)</u>	<u>(123,274)</u>
Total liabilities		<u>(660,943)</u>	<u>(554,871)</u>
Net assets		<u>438,309</u>	<u>284,518</u>
Equity attributable to owners of the parent			
Called up share capital	25	105,438	105,438
Share-based payment reserve	29	4,762	4,720
Retained earnings	26	328,109	174,360
Total equity		<u>438,309</u>	<u>284,518</u>

The financial statements on pages 9 to 38 were approved by the board of directors and approved for issue on 21 December, 2016.

Signed on behalf of the board

John Boler, Director

21 December, 2016

Company Registration Number: 02012379



THOMAS COOK AIRLINES LIMITED

Statement of changes in equity for the year ended 30 September 2016

	Called up share capital £'000	Retained earnings £'000	Share based payment £000	Total equity £'000
Opening balance at 1 October 2014	105,438	140,586	4,720	250,744
Profit for the year	-	85,347	-	85,347
Actuarial gain on defined benefit pension scheme	-	62,092	-	62,092
Deferred tax - on current year actuarial gain on defined benefit pension scheme	-	(13,665)	-	(13,665)
Total comprehensive income for the year	-	133,774	-	133,774
Dividends paid	-	(100,000)	-	(100,000)
At 30 September 2015	105,438	174,360	4,720	284,518

	Called up share capital £'000	Retained earnings £'000	Share based payment £000	Total equity £'000
Opening balance at 1 October 2015	105,438	174,360	4,720	284,518
Profit for the year	-	171,952	-	171,952
Actuarial gain on defined benefit pension scheme	-	(19,110)	-	(19,110)
Deferred tax - on current year actuarial gain on defined benefit pension scheme	-	907	-	907
Total comprehensive income for the year	-	153,749		153,749
Charge for the year	-	-	42	42
At 30 September 2016	105,438	328,109	4,762	438,309

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

1. General information

Thomas Cook Airlines Limited is a limited liability company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is Westpoint, Peterborough Business Park, Lynch Wood, Peterborough PE2 6FZ. The nature of the Company's operations and its principal activities are set out in the Strategic Report. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates. At 30 September 2016 the Company was a wholly-owned subsidiary company and was included within the audited consolidated financial statements of Thomas Cook Group plc, a company incorporated in England and Wales, which were prepared in accordance with International Financial Reporting Standards and filed with the Registrar of Companies. The Company is therefore exempt from the obligation to prepare consolidated financial statements under section 400 of the Companies Act 2006.

Basis of preparation

The financial statements of Thomas Cook Airlines Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006, as applicable to companies using FRS101. The Directors have used the going concern principle on the basis that the Company is profitable and has sufficient funds to continue in operation for at least 12 months from the signing date.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: Disclosures'
- IAS 1, 'Presentation of financial statements' – the following paragraphs;
 - 10(d) (statement of cash flows)
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS)
 - 111 (cash flow statement information), and
- IAS 7, 'Statement of cash flows'
- IAS 8 'Accounting policies, changes in accounting estimates and errors'
 - Paragraph 30 and 31 (requirement for disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- IAS 24 'Related party disclosures'
 - Paragraph 17 (key management compensation)
 - The requirements to disclose related party transactions entered into between two or more members of a group.

The principal accounting policies adopted by the Company have been applied consistently and are set out in note 2.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

2. Significant accounting policies

Subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less provision for impairment. Dividends received from these investments are recognised in the income statement on the date of receipt and classified as investment income.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The allocation of goodwill is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Any impairment is recognised immediately in the Company's income statement. Impairment losses on goodwill are reversed only if the reasons for the impairment loss have ceased to apply.

Software

Additions in the year represent software development costs which will be amortised from the date upon which the asset is brought into use.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of straight-line 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.

Aircraft overhaul and maintenance costs are expensed as they are incurred for non-major overhauls but costs of major overhauls are capitalised (see accounting policy below for more detailed information).

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:

Aircraft 23 years (or remaining lease period if shorter)

Aircraft spares 5 to 15 years (or remaining lease period if shorter)

Motor vehicles 4 years

Fixtures, fittings and equipment 3 to 15 years

Estimated residual values and useful lives are reviewed annually.

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.

Aircraft overhaul and maintenance costs

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under "pay-as-you-go" contracts) are charged to the income statement on consumption or as incurred respectively.

Provision is made for the future costs of major overhauls of operating leased engines, auxiliary power units and airframes by making appropriate charges to the income statement, calculated by reference to hours flown and/or the expired lease period, as a consequence of obligations placed upon the Company under the terms of certain operating leases. The provision is discounted to its present value.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

2. Significant accounting policies (continued)

Revenue recognition and associated costs

Revenue is the total amount receivable by the Company in the ordinary course of business for goods supplied as principals and for services provided, excluding value added tax. Revenues and expenses relating to charter flight sales are recognised in the income statement on flight departure and include the following revenues: seat revenue, passenger taxes, in flight sales, in-flight entertainment, insurance surcharges, excess baggage, pre-bookables and cargo.

Income statement presentation

Profit or loss from operations includes the results from operating activities of the Company.

The Company separately discloses exceptional items in the income statement, Exceptional items, namely items that are material because of their size or their nature, and which are non-recurring, are presented within their relevant income statement category, but highlighted through separate disclosure. The separate reporting of exceptional items helps provide a full understanding of the Company's underlying performance. Items which are included within the exceptional category include

- profits / (losses) on disposal of assets
- costs of major restructuring programmes
- significant goodwill or other asset impairments
- other material items that are unusual because of their size, nature or incidence

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.

Pensions

The Company operates a number of defined benefit schemes. The pension assets recognised on the balance sheet in respect of these schemes represent the difference between the present value of the Company's obligations under the schemes (calculated using the projected unit credit method) 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 comprehensive income and expense. The unwinding of the discount rate on the scheme liabilities and the expected return on scheme assets are presented as a net finance cost in the income statement. Past service costs are recognised immediately in the income statement in personnel expenses.

Pension costs charged against profits in respect of the Company's defined contribution schemes represent the amount of the contributions payable to the schemes in respect of the accounting period. The Company has no further payment obligations once the contributions have been paid.

Leases

Leases under which substantially all of the risk and rewards of ownership are transferred to the Company 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. For finance lease aircraft which are returned to the lessor at the end of the lease term, provision is made for costs

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

2. Significant accounting policies (continued)

associated with contractual redelivery requirements at the inception of the lease and costs amortised over the lease term.

Trade receivables – non derivative financial assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'operating expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'operating expenses' in the income statement.

Trade payables

Trade payables are recognised when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "interest payable" in the Statement of Comprehensive Income. Financial liabilities are initially recognised at fair value and subsequently measured at amortised costs using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

Provisions for restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Foreign currency

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

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

2. Significant accounting policies (continued)

Investment in equity instruments

Investments in equity instruments, classified as fair value through profit and loss, are measured at fair value upon recognition. Subsequent changes in fair value are recognised within the income statement.

Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Any impairment losses are recognised in the income statement.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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 Statement of comprehensive income. When a derivative qualifies for hedge accounting as a cash flow hedge, changes in the fair value that are deemed 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.

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The company also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company does not designate any of its derivative financial instruments as cash flow hedges and hence takes all changes in fair value through the Income statement.

Share-based payments

The Company has applied the requirements of IFRS 2 'Share-based payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 November 2004.

The parent company issues share options to certain employees of the Company 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. This amount has been charged to the Company by the Group.

Interest receivable and payable

Interest receivable comprises interest income on funds invested.

Interest payable comprise interest costs on borrowings and finance leases, unwind of the discount on provisions and net interest cost on pension plan liabilities.

Critical judgements in applying the Company's accounting policies

In the process of applying the Company'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 property, plant and equipment**

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.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

2. Significant accounting policies (continued)

- **Recoverable amounts of goodwill**

Judgements have been made in respect of the amounts of future operating cash flows to be generated in order to assess whether there has been any impairment of the amounts included in the balance sheet for goodwill in the Company.

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:

- **Aircraft maintenance provisions**

Provisions for the cost of maintaining leased aircraft and spares are based on estimates of the timing and cost of future maintenance.

- **Delayed flight provision**

Provisions for the cost of compensating passengers in the event of delayed flights are based on actual flight delays and management's best estimate of passenger claim rate and compensation per passenger.

- **Retirement benefits**

The financial statements include costs in relation to, and provision for, retirement benefit obligations. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the salary progression of current employees, the returns that plan assets generate and the discount rate used to calculate the present value of the liabilities. The Company uses previous experience and impartial actuarial advice to select the values of critical estimates. The estimates, and the effect of variances in key estimates, are disclosed in Note 24.

3. Turnover

The Company has only one principal activity which is that of a charter airline operator. All results relate to this activity and originate in the United Kingdom.

4. Cost of Sales

Included within cost of sales is a gain of £87.7m relating to the movement in the fair value of hedges (2015: £37.4million loss).

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

5. Exceptional items

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Exceptional operating items – cost of sales:		
Start-up costs	1,026	879
	<u>1,026</u>	<u>879</u>
Exceptional operating items – operating cost		
Restructuring	-	1,163
	<u>-</u>	<u>1,163</u>
Total exceptional operating items	<u><u>1,026</u></u>	<u><u>2,042</u></u>

Start-up costs in 2016 in Cost of Sales of £1.0m (2015: £0.9m) relate to costs associated with the start-up of a new business area. Restructuring costs in Operating expenses of £1.2m in 2015 represents redundancy and relocation expenses.

6. Operating expenses

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Operating expenses excluding exceptional items	97,788	96,788
	<u>97,788</u>	<u>96,788</u>

7. Interest receivable and similar income

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Interest receivable from Group companies	1,822	2,006
Net interest receivable on defined benefit obligation (note 24)	1,065	-
	<u><u>2,887</u></u>	<u><u>2,006</u></u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

8. Interest payable and similar charges

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
External bank and other interest payable	(2,869)	(2,007)
Unwinding of discount in respect of maintenance provisions	(2,885)	(3,653)
Net interest cost on defined benefit obligation (note 24)	-	(1,771)
Interest payable in respect of finance leases	(1,637)	(2,505)
	<u>(7,391)</u>	<u>(9,936)</u>

9. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation has been arrived at after (crediting)/charging:

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Net foreign exchange loss / (gain)	17,479	(6,385)
Gain on fair value of currency hedges	(44,639)	(5,459)
Gain on fair value of interest hedges	-	(180)
(Gain) / loss on fair value of fuel hedges	(43,048)	43,043
Depreciation of property, plant and equipment – owned assets	7,721	12,332
Depreciation of property, plant and equipment – held under finance leases	38,102	32,554
Amortisation of intangible assets (note 13)	881	106
Operating lease rentals payable – hire of plant and machinery (note 28)	103,737	79,068
Exceptional operating items (note 5)	1,026	2,042
Staff costs (note 10)	116,560	110,414
Auditors' remuneration	67	66
	<u>116,560</u>	<u>110,414</u>

Auditors' remuneration is paid by the Company directly. No fees are paid to the auditors in respect of non-audit services.

10. Staff costs

The average monthly number of employees (including executive directors) was:

By Activity	Year ended 30 September 2016 Number	Year ended 30 September 2015 Number
Management and administration	360	337
Flight Deck and Cabin Crew	1,977	1,648
	<u>2,337</u>	<u>1,985</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

10. Staff costs (continued)

	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	93,243	90,456
Social security costs	11,084	9,944
Share based payment charge (Note 29)	42	114
Other pension costs – defined contribution scheme	10,355	9,016
Other pension costs – defined benefit scheme	1,836	884
	<u>116,560</u>	<u>110,414</u>

Refer to note 30 for disclosures relating to directors remuneration.

11. Tax of profit on ordinary activities

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Current tax		
UK corporation tax (credit) / charge for the year	-	-
UK corporation tax adjustments in respect of prior years	-	-
Total current tax	-	-
Deferred tax		
Adjustment in respect of current years	(1,597)	(1,316)
Adjustment in respect of prior years	(432)	(1,656)
Total deferred tax credit	<u>(2,029)</u>	<u>(2,972)</u>
Total tax credit	<u>(2,029)</u>	<u>(2,972)</u>

Corporation tax is calculated at 20% (2015: 20.5%) of the estimated assessable profit for the period.

The tax credit for the year can be reconciled to the profit per the income statement as follows:

	2016 £'000	2015 £'000
Profit before tax	<u>169,923</u>	<u>82,375</u>
Expected tax charge at the UK corporation tax rate of 20% (2015: 20.5%)	33,985	16,887
Effects of:		
Non taxable income	(51)	(757)
Expenses not deductible for tax purposes	8	23
Deferred tax effect of reduction in the main rate of corporation tax	353	33
Tax on pension recognised in other comprehensive income	(2,523)	(1,762)
Depreciation not in deferred tax	410	11
Deferred tax not previously recognised	(1,154)	-
Group relief received for nil consideration	(32,625)	(15,751)
Adjustments in respect of prior years	(432)	(1,656)
Tax credit for the year	<u>(2,029)</u>	<u>(2,972)</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

11. Tax of profit on ordinary activities (continued)

Finance Act 2013 included legislation to reduce the main rate of Corporation Tax to 21% with effect from 1st April 2014 and 20% with effect from 1st April 2015. Further reductions in the main rate of Corporation Tax in the UK to 19% from 1st April 2017 and 18% from 1st April 2020 were enacted by Finance (No.2) Act 2015. Finance Act 2016 included legislation enacting a further reduction in the main rate of Corporation Tax to 17% from 1st April 2020.

12. Tangible assets

	Fixtures Fittings and Equipment £'000	Motor Vehicle £'000	Aircraft and Spares £'000	Total £'000
Cost				
At 1 October 2015	2,691	100	399,109	401,900
Additions	2,471	-	18,085	20,556
Disposals	-	-	(40,239)	(40,239)
At 30 September 2016	5,162	100	376,955	382,217
Accumulated depreciation and impairment				
At 1 October 2015	2,604	100	215,698	218,402
Charge for the year	224	-	45,599	45,823
Disposals	-	-	(37,701)	(37,701)
At 30 September 2016	2,828	100	223,596	226,524
Carrying amount				
At 30 September 2016	2,334	-	153,359	155,693
At 30 September 2015	87	-	183,411	183,498

The carrying amount of the Company's aircraft and spares includes an amount of £130.2m (2015: £131.6m) in respect of assets held under finance leases.

Depreciation of £45.8m has been charged to operating expenses (2015: £44.9m).

During the year, the Company performed a review of its fixed asset register and has written off a number of historical maintenance events which carried nil net book value.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

13. Intangible assets

	Software £'000	Goodwill £'000	Total £'000
Cost			
At 1 October 2015	2,483	37,606	40,089
Additions	3,729	-	3,729
Disposals	-	-	-
At 30 September 2016	6,212	37,606	43,818
Accumulated amortisation			
At 1 October 2015	103	-	103
Amortisation charge	881	-	881
Disposals	-	-	-
At 30 September 2016	984	-	984
Net book value			
At 30 September 2016	5,228	37,606	42,834
At 30 September 2015	2,380	37,606	39,986

In accordance with the accounting standards, the directors annually test the carrying value of goodwill for impairment. At 30 September 2016 the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill was supported by the present value of future cash flows derived from those assets. The terminal growth rate used for the impairment review was 2% (2015: 2%).

The review determined that there had been no impairment in the UK Airlines and hence the intangible assets in the Company were considered to be unimpaired.

The directors believe the carrying value of goodwill is supported by the trading performance of the Company and have applied the true and fair view override for the non-amortisation of goodwill.

Additions in the year represent software development costs which have been amortised from the date which the asset was brought into use.

Amortisation of £0.9m for software has been charged to operating expenses (2015: £0.1).

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

14. Investments

	Subsidiary undertakings £'000	Other investments - Loans and receivables £'000	Total £'000
Cost			
At 1 October 2015	1,031	1	1,032
Additions	-	-	-
Repayment	-	-	-
	<u>1,031</u>	<u>1</u>	<u>1,032</u>
At 30 September 2016	<u>1,031</u>	<u>1</u>	<u>1,032</u>
Impairment			
At 1 October 2015 and 30 September 2016	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Net book value			
At 30 September 2016	<u>1,031</u>	<u>1</u>	<u>1,032</u>
At 30 September 2015	<u>1,031</u>	<u>1</u>	<u>1,032</u>

The directors believe that the carrying value of the investments is supported by their value in use.

The Company has the following subsidiaries:

Name	% ownership of ordinary shares	Country of incorporation	Principal activity
Thomas Cook Aircraft Engineering Limited	100	UK	Aircraft engineering services
Thomas Cook Cabin Crews GmbH	100	Germany	Airline cabin crew services
My Travel 330 Leasing Limited	100	Cayman Islands	Aircraft Leasing

Other investments relate to the Company's investment, as a member of The Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises ordinary shares, classified upon recognition as fair value through profit & loss financial assets, in the Airline Group.

15. Inventories

	30 September 2016 £'000	30 September 2015 £'000
Goods held for resale	911	1,009
Consumables	22,697	21,673
Less; provision for obsolete stock	(9,795)	(10,815)
	<u>13,813</u>	<u>11,867</u>

The cost of inventory recognised as an expense and included in cost of sales amounted to £6.7m (2015: £7.2m).

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

16. Trade and other receivables

	30 September 2016 £'000	30 September 2015 £'000
Non-current assets		
Aircraft deposits	4,670	4,176
Other receivables and prepayments	-	1,697
	<u>4,670</u>	<u>5,873</u>
Current assets		
Trade receivables	22,881	18,055
Less: provision for impairment of trade receivables	(182)	(137)
Trade receivables – net	<u>22,699</u>	<u>17,918</u>
Aircraft deposits	693	1,260
Other receivables and prepayments	23,387	18,761
Value Added Tax	2,308	2,340
Amounts owed by Group undertakings	<u>725,217</u>	<u>522,510</u>
	<u><u>774,304</u></u>	<u><u>562,789</u></u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Included within other receivables and prepayments, maintenance reserves are aged based on expected reclaims against maintenance events, in line with the ageing of the maintenance provisions.

	30 September 2016 £'000	30 September 2015 £'000
Movement in allowances for doubtful trade receivables		
At the beginning of the year	(137)	(122)
Additional provision for receivables impairment	(45)	(15)
Utilised	-	-
At the end of the year	<u>(182)</u>	<u>(137)</u>

As of 30 September 2016, trade receivables of £20.9m (2015: £17.9m) were fully performing and therefore considered fully recoverable. No items that are fully performing have been renegotiated in the last year.

Trade receivables that are less than 3 months past due are not considered impaired. As of 30 September 2016, trade receivables of £1.8m (2015: £0.2m) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default, and so are considered fully recoverable. The ageing analysis of these trade receivables is as follows:

	30 September 2016 £'000	30 September 2015 £'000
Up to 3 months	-	-
3 to 6 months	1,794	21
6 to 12 months	-	-
Over 12 months	-	134
	<u>1,794</u>	<u>155</u>

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

As of 30 September 2016, trade receivables of £0.2m (2015: £0.1m) were impaired and provided for. The amount of the provision was £0.2m as of 30 September 2016 (2015: £0.1m). The individually impaired receivables mainly relate to customers in unexpectedly difficult economic situations or to significantly aged balances. The ageing analysis of these trade receivables is as follows:

	30 September 2016 £'000	30 September 2015 £'000
Up to 3 months	-	-
3 to 6 months	182	-
6 to 12 months	-	-
Over 12 months	-	137
	<u>182</u>	<u>137</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

The amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

Credit risk

The Company's principal financial assets are bank balances and cash, trade and other receivables, aircraft deposits and amounts owed by Group undertakings.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. 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 Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

17. Trade and other payables

	30 September 2016 £'000	30 September 2015 £'000
Current liabilities		
Trade payables	99,685	84,462
Other taxation and social security	5,451	20,187
Accruals and deferred income	171,786	33,613
Other payables	16,321	8,401
Amounts owed to Group undertakings	129,575	156,826
	<u>422,818</u>	<u>303,489</u>

The average credit period taken for trade purchases is 44 days (2015: 37 days).

The amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

The directors consider that the carrying amount of trade payables approximates to their fair value.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

18. Cash at bank and in hand

	30 September 2016 £'000	30 September 2015 £'000
Short term bank deposits	35,596	2,582
Cash at bank and in hand	6	8
	<u>35,602</u>	<u>2,590</u>

Bank balances and cash comprise cash held by the Company and short-term bank deposits with an original maturity of 3 months or less. The carrying amount of these assets approximates their fair value.

19. Borrowings

	30 September 2016 £'000	30 September 2015 £'000
Due within one year or on demand:		
Bank Overdraft	45,094	-
Finance lease obligations (note 20)	19,752	26,687
	<u>64,846</u>	<u>26,687</u>
Due after more than one year:		
Finance lease obligations (note 20)	17,843	33,226
	<u>17,843</u>	<u>33,226</u>

As at 30 September 2016, the Group had undrawn committed debt facilities of £481m (2015: £453m) and undrawn committed debt facilities plus cash available to repay revolving credit facility of £2,212m (2015: £1,682m). Whilst these facilities have certain financial covenants they are not expected to prevent full utilisation of the facilities if required. The Group has complied with its covenants throughout the year.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

20. Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	30 September 2016	30 September 2015	30 September 2016	30 September 2015
	£'000	£'000	£'000	£'000
Amounts payable under finance leases:				
Within one year	20,948	29,348	19,752	26,687
Between one and two years	8,960	19,092	8,062	17,513
Between two and five years	10,165	14,202	8,784	12,090
Greater than five years	1,012	3,623	997	3,623
	41,085	66,265	37,595	59,913
Less: future finance charges	(3,490)	(6,352)	-	-
Present value of lease obligations	37,595	59,913	37,595	59,913
Less: Amount due for settlement within 12 months (shown under current liabilities)			(19,752)	(26,687)
Amount due for settlement after 12 months			17,843	33,226

Finance leases principally relate to aircraft and aircraft spares, and are all payable in US Dollars.

The average lease term at inception was 6.7 years (2015: 7.1 years) and the average remaining lease term is 1.7 years (2015: 2.9 years). For the year ended 30 September 2016 the average effective borrowing rate was 3.37% (2015: 4.19%). There were no lease obligations with fixed interest rates as at 30 September 2016 (in 2015: nil.) Interest rates on the balance of 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 fair value of the Company's finance lease obligations approximates their carrying amount.

The Company's obligations under finance leases are secured by the lessors' right over leased assets. No arrangements have been entered into for contingent rental payments.

Sub Lease rentals receivable

During the year, 4 aircraft (2015: 5 aircraft) held under finance leases were sub-let on operating leases for the whole or part of the year.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

21. Provisions for other liabilities and charges

	Maintenance Provisions £'000	EU261 Provisions £'000	Total Provisions £'000
At 1 October 2015	116,719	30,173	146,892
Foreign exchange differences	21,934	-	21,934
Provisions created in the year	21,142	17,736	38,878
Unwinding of discount	6,840	-	6,840
Utilisation of provisions	(33,791)	(25,317)	(59,108)
At 30 September 2016	132,844	22,592	155,436
Included in current liabilities	16,326	22,592	38,918
Included in non-current liabilities	116,518	-	116,518
	132,844	22,592	155,436

The maintenance provisions relate to maintenance on operating leased aircraft and spares used by the Company in respect of leases, which include contractual return conditions. This expenditure arises at different times over the life of the aircraft. The provision is based on planned expenditure using the most current information available.

The EU261 provisions relate to the compensation of passengers in the event of delayed flights as discussed in the Strategic report. The provision relates to both historical and future events and is based on management's best estimate of flight delay rate and passenger claim rate.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

22. Deferred tax asset

The gross movement on the deferred income tax account is as follows:

	30 September 2016 £'000	30 September 2015 £'000
Beginning of the year	10,018	20,711
Income statement credit	2,029	2,972
Credited /(charge) direct to equity	907	(13,665)
End of the year	<u>12,954</u>	<u>10,018</u>

Movements on the deferred taxation assets are as follows:

Deferred tax assets	Accelerated tax depreciation £'000	Retirement benefit obligations £'000	Total £'000
Balance at 1 October 2015	14,366	(4,348)	10,018
Credited to			
- income statement	1,279	750	2,029
- equity	-	907	907
At 30 September 2016	<u>15,645</u>	<u>(2,691)</u>	<u>12,954</u>

At the balance sheet date, the company had short term timing differences of £82.7 million (2015: £71.8 million) available for offset against future profits. In addition, the company had short term timing differences of £14.2 million (2015: £21.7 million) that will be chargeable in later periods.

The Directors have concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on approved budgets.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

23. Financial instruments

Carrying values of financial assets and liabilities

The carrying values of the Company's financial assets and liabilities as at 30 September 2016 and 30 September 2015 are as set out below:

	Fair value through profit & loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
At 30 September 2016			
Investments	-	1	-
Trade and other receivables	-	755,625	-
Cash at bank and in hand	-	35,602	-
Bank overdraft	-	(45,094)	-
Trade and other payables	-	-	(251,032)
Obligations under financial leases	-	-	(37,594)
Derivative financial instruments	43,110	-	-
	43,110	746,134	(288,626)

	Fair value through profit & loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
At 30 September 2015			
Investments	-	1	-
Trade and other receivables	-	550,501	-
Cash at bank and in hand	-	2,590	-
Trade and other payables	-	-	(269,876)
Obligations under financial leases	-	-	(59,913)
Derivative financial instruments	(44,577)	-	-
	(44,577)	553,092	(329,789)

Derivative financial instruments

The fair values of derivative instruments as at 30 September 2016:

	Derivative contracts £'000
At 1 October 2015	(44,577)
Movement in fair value during the year (note 9)	87,687
At 30 September 2016	43,110

	2016 £'000	2015 £'000
Current assets	54,383	9,743
Current liabilities	(11,273)	(54,320)
	43,110	(44,577)

The Company uses derivative instruments to hedge against significant future transactions (including the purchase of fuel) and cash flows denominated in foreign currencies. The Company enters into a variety of foreign currency forward contracts and options in the management of its exchange rate exposures which do not qualify as cash flow hedges and hence any gain/loss on the fair value of these contracts is immediately recognised in the income statement.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

23. Financial instruments (continued)

Currency hedges are entered into between 12 to 24 months in advance of a tourist season and denominated in the underlying exposure currencies.

The Company undertakes hedging transactions to mitigate the risk of unfavourable changes in prices, principally for fuel.

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

24. Pensions

Retirement benefit schemes

The Company participates in the Thomas Cook UK Pension Plan for certain qualifying employees. The pension entitlements of certain employees who transferred with the acquisition of Thomas Cook Airlines UK Limited are provided through funded defined benefit schemes where pension contributions are paid over to the schemes and the assets of the schemes are held separately from those of the Company in funds under the control of trustees. Pension costs are assessed in accordance with the advice of qualified actuaries. The fair value of the pension assets in each scheme at the year-end is compared with the present value of the retirement benefit obligations and the net difference reported as a pension asset or retirement benefit obligation as appropriate. Pension assets are only recognised to the extent that they will result in reimbursements being made or future payments being reduced.

Scheme members are employed by both the Company and its subsidiaries. As sponsoring company the scheme assets and liabilities are accounted for in the financial statements of the Company. The income statement charge in the Company disclosed in note 10 represents the current service cost relating to the employees of the Company.

The amounts recognised in the balance sheet are determined as follows:

	30 September 2016 £'000	30 September 2015 £'000
Present value of funded obligations	(589,717)	(421,789)
Fair value of scheme assets	604,957	443,525
Asset in the balance sheet	15,240	21,736

Following the 2011 actuarial valuation of the Thomas Cook UK Pension Plan, a five-year Recovery Plan was agreed with the pension trustees to fund the actuarial deficit. In line with that agreement, Thomas Cook Group UK Limited committed to make additional payments totalling £125.9m from February 2013 through to June 2017. During the year ended 30 September 2016, Thomas Cook Group UK Limited paid lump sum contributions totalling £26m in line with the recovery plan.

The contributions made during the year by the Company totalled £12.8m (2015: £11.8m). The Company is expected to make aggregate contributions to its funded defined benefit scheme of £12.8m during the year commencing 1 October 2016. The Company does not expect the level of total contributions to vary materially in the foreseeable future.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

24. Pensions (continued)

The movement in the defined benefit obligation and fair value of plan assets during the year resulting in a pension surplus is as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 October 2014	(420,586)	371,651	(48,935)
Interest (expense)/income	(19,357)	17,586	(1,771)
Expenses paid	-	(1,395)	(1,395)
Remeasurements			
- Return on plan assets, excluding amounts included in interest income	-	- 29,452	29,452
- Gain from change in financial assumptions	13,337	-	13,337
- Experience (losses)/gains and demographic assumptions	(7,168)	26,456	19,288
Employers contributions	-	11,760	11,760
Benefit payments from plan	11,985	(11,985)	-
At 30 September 2015	(421,789)	443,525	21,736
	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 October 2015	(421,789)	443,525	21,736
Interest (expense)/income	(17,581)	18,916	1,065
Expenses paid	-	(1,215)	(1,215)
Remeasurements			
- Return on plan assets, excluding amounts included in interest income	-	144,196	144,196
- Loss from change in financial assumptions	(174,233)	-	(174,233)
- Experience (losses)/gains and demographic assumptions	10,927	-	10,927
Employers contributions	-	12,764	12,764
Benefit payments from plan	13,229	(13,229)	-
At 30 September 2016	(589,717)	604,957	15,240

Pension administrative expenses paid are recognised in operating expenses in the income statement.

The above amounts are those attributable to the company, and not to the Thomas Cook Group UK Limited as a whole.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

24. Pensions (continued)

The significant actuarial assumptions were as follows:

	2016	2015
	%	%
Discount rate for scheme liabilities	2.40	3.90
Inflation rate (RPI)	3.00	3.00
Expected return of salary increases	0.00	0.00
Future pension increases	0.00	0.00

The mortality assumptions adopted for the plan liabilities indicate a further life expectancy for members currently aged 65 of 23.6 years for men and 25.7 years for women.

The fair value of the plan assets is detailed below:

	2016		2015	
	£'000	Proportion of total assets %	£'000	Proportion of total assets %
Cash and cash equivalents	3,336	1	4,335	1
Equity instruments	42,938	7	124,187	28
Debt instruments	186,417	31	108,381	25
Real estate	24,870	4	46,218	9
Derivatives	276,085	45	52,023	12
Investment funds	71,311	12	108,381	25
	604,957		443,525	

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

The Scheme currently has part of its assets invested in a liability driven investment portfolio. These assets, in combination with the other protection assets in the portfolio, provide interest rate and inflation rate protection relative to 40% of the value of the total scheme assets.

Defined Contribution Scheme

There are a number of defined contribution schemes in the Company, the principal scheme being the Thomas Cook UK DC Pension Scheme, which is open to all UK employees of Thomas Cook Group.

The total charge for the year in respect of these and other defined contribution schemes, including liabilities in respect of insured benefits relating to workers' compensation arrangements, amounted to £10,355,000 (2015: £9,016,000).

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

At 30 September 2016 there were no amounts prepaid or outstanding in relation to the defined contribution scheme (2015: £nil).

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

25. Called up share capital

	30 September 2016 £'000	30 September 2015 £'000
Authorised, allotted, issued and fully paid		
105,437,500 (2015: 105,437,500) ordinary shares of £1 each	105,438	105,438

The Company has one class of ordinary shares which carry no right to fixed income.

The Company is not subject to any externally imposed capital requirement. The parent company's objectives when managing capital are to safeguard the UK Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the UK Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, and sell assets to reduce debt or issue new shares. The capital structure of the UK Group consists of debt, cash and cash equivalents.

26. Retained earnings

	£'000
Balance at 1 October 2015	174,360
Profit for the year	171,952
Actuarial loss on defined benefit pension scheme	(19,110)
Deferred tax - on current year actuarial loss on defined benefit pension scheme	907
Balance at 30 September 2016	328,109

27. Contingent liabilities

At 30 September 2016 the Company has no given guarantees and counter indemnities to banks (2015: £14.5m) in respect of bonding, letter of credit and guarantee facilities. The Company is also a guarantor over bonding, letter of credit and guarantee facilities utilised by other UK subsidiaries of the Group. The Group potential liabilities in relation to total bonding, letter of credit and guarantee facilities are £296.2m (2015: £308.3m).

In addition to this, the Company is one of the guarantors of the Group term and revolving credit facilities. Each of the guarantors is jointly liable for the drawn down portion of £19.5m (2015: £46.6m).

In addition, the Company is one of the guarantors of the EUR and GBP bonds issued by Thomas Cook Group plc. Each of the guarantors is joint & severally liable for the £995m (2015: £964m) bond amount.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

28. Operating lease arrangements

The Company as lessee

	Year ended 30 September 2016 £'000	Year ended 30 September 2015 £'000
Minimum lease payments under operating leases recognised in expense for the year	<u>103,737</u>	<u>79,068</u>

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

	30 September 2016 £'000	30 September 2015 £'000
Within one year	84,756	66,595
In the second to fifth years inclusive	315,367	338,687
After five years	272,887	232,907
	<u>673,010</u>	<u>638,189</u>

Operating lease payments represent rentals payable by the Company for certain of its aircraft, aircraft spares and office properties.

No arrangements have been entered into for contingent rental payments.

Operating lease payments principally relate to rentals payable for aircraft and spares. Aircraft leases are typically negotiated for an average term of 9 years.

The Company as lessor

During the years, amounts received under operating leases was £13.0m (2015; £27.1m). At the balance sheet date, the Company had outstanding amounts due from lessees for future minimum lease payments from lessees of £10.6m (2015: £440m).

No arrangements have been entered into for contingent rental payments.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

29. Share based payments

Equity-settled share option scheme

The Company operates two equity-settled share-based payment schemes, as outlined below. The total charge recognised during the year in respect of equity-settled share-based payment transactions was £42,207 (2015: £113,802).

The Thomas Cook Group plc 2007 Performance Share Plan (PSP)

Executive Directors and senior executives of the Company and its subsidiaries are granted options to acquire, or contingent share awards of, the ordinary shares of the Company. The awards will vest if performance targets are met during the 3 years following the date of grant.

The Thomas Cook Group plc 2011 Restricted Share Plan (RSP)

Senior management of the Company and its subsidiaries are granted options to acquire, or contingent share awards of, the ordinary shares of the Company. Executive Directors are excluded from receiving awards under the RSP. The Company will determine at the date of award whether the award will be subject to a performance target and the date of vesting.

The exercise price of awards outstanding at the year end and the average remaining contractual life of these awards were:

	2016				
	PSP	RSP	COIP	SAYE	CSOSP
Exercise price (£)	-	-	-	-	-
Average remaining contractual life (years)	1.7	0.9	-	-	-
	2015				
	PSP	RSP	COIP	SAYE	CSOSP
Exercise price (£)	-	-	-	-	-
Average remaining contractual life (years)	1.4	1.5	-	-	-

In the current year, the average remaining contractual life of these awards was calculated based upon vesting date. In the prior year the lives were calculated based upon exercise date.

THOMAS COOK AIRLINES LIMITED

Notes to the financial statements for the year ended 30 September 2016

30. Directors' remuneration

Directors' emoluments

The aggregate emoluments of the directors of the Company are set out below:

	30 September 2016 £'000	30 September 2015 Restated £'000
Aggregate emoluments in respect of qualifying services	1,357	1,095
Company pension contributions	49	82
Share based payments	16	50
	<u>1,422</u>	<u>1,227</u>

4 directors (2015: 4) are included in the defined contribution scheme for 2016, and no directors (2015: none) in the final salary scheme.

The amounts in respect of the highest paid director are as follows:

	30 September 2016 £'000	30 September 2015 Restated £'000
Aggregate emoluments in respect of qualifying services	448	381
	<u>448</u>	<u>381</u>

Directors' transactions

There were no loans, quasi-loans or other transactions with directors (or other key management personnel) which would need to be disclosed under the requirements of Schedule 6 of the Companies Act or IAS 24, "Related party disclosures".

31. Ultimate controlling party

The Company is a subsidiary of Thomas Cook Group UK Limited, a company incorporated in England and Wales.

Thomas Cook Group plc, incorporated in England and Wales, is the Company's ultimate parent company and ultimate controlling party.

The smallest and largest group in which the results of the Company are consolidated is that of which Thomas Cook Group plc is the parent company. The consolidated financial statements of Thomas Cook Group plc may be obtained from 3rd Floor, South Building, 200 Aldersgate, London, EC1A 4HD.