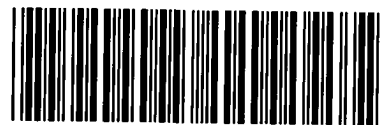


**THOMAS COOK AIRLINES  
LIMITED**

**Report and Financial Statements  
(AMENDED)**

**For the year ended 30 September 2015**

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# **THOMAS COOK AIRLINES LIMITED**

## **REPORT AND FINANCIAL STATEMENTS (AMENDED)**

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# **THOMAS COOK AIRLINES LIMITED**

## **Officers and professional advisers**

### **DIRECTORS**

J C Debus  
J M Boler  
J K Schildt (resigned 7 July, 2016 )  
C Vrieswijk (resigned 10 September, 2015)  
JA Armstrong (appointed 15 September, 2015)  
Thomas Cook Group Management Services Ltd  
P Hutchings (appointed 17 June, 2016)

### **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 2015.

### 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.

The results for the Company show a profit on ordinary activities before taxation of £82.4 million (2014: £28.1 million) for the year and sales of £1,073.9 million (2014: £980.6 million). In 2014 the Company recognised exceptional operating costs of £55.1m, the largest elements relating to provisions for compensation for flight delays and the dissolution of Thomas Cook Airlines UK Limited and Jupiter Leasing Limited (more details are included in note 4). The Company has net assets of £284.5 million (2014: £250.7 million).

### BUSINESS ENVIRONMENT

During the year, the UK has shown reasonable economic growth, with GDP rising by 2.2% in 2015. Lower oil prices, robust job creation and rising wages continue to bolster consumer spending, which coupled with the strong Pound is leading to increased demand for international travel. It is expected that the UK economy will grow at a similar level in 2016.

Our markets have also been affected by geopolitical events, with the terrorist attack in Tunisia in June affecting that destination in particular, the threat of a Greek exit from the Euro impacting demand to Greece for a period in July, and more recently events in Egypt leading to the near-cessation of travel to Sharm-el-Sheikh.

### STRATEGIC REVIEW AND FUTURE OUTLOOK

The Company continues to be the preferred carrier for the UK Group tour operator, although our strategy is to reduce our dependence on in-house flying by having more flexibility, commercial control and accountability for our business-to-business sales activity. All of the commercial responsibility for scheduling, seat only sales and Airline yield management are the Company's responsibility.

The second element of our business improvement plan is to improve our profitability through increased co-operation with the rest of the Thomas Cook Group (and in particular the other businesses in the Airlines Group) and also addressing the cost base of the Company.

The last year has seen us make good progress in developing our business, with the completion of the investment in the refurbishment of the passenger cabins in our aircraft. This includes state-of-the-art in-flight entertainment and a luxurious premium cabin on long-haul flights. Our short and medium haul fleet rollover has continued this will and we have cut delays of more than three hours, further improving the customer experience.

In recognition of the progress we have made, Thomas Cook Airlines have been awarded the following: "Customer Service of the Year 2016" (Airline category), "Europe's Leading Charter Airline" (World Travel Awards), "World's Leading Charter Airline" (World Travel Awards) and "Airline of the Year 2015" (Scottish Passenger Agents' Association).

Going forward, the Company will continue to optimise our website [thomascookairlines.com](http://thomascookairlines.com), continue to introduce new long haul routes and continue to make improvements to our fleet of aircraft.

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)**

#### **KEY PERFORMANCE INDICATORS ("KPIs")**

#### **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:

- Recruitment, development and retention of talented people
- A major health and safety incident impacting our customers or colleagues
- Geo-political shocks and regulatory changes
- Commodity, currency and interest rate fluctuations
- The business transformation fails to deliver against strategic and operational targets
- Failure to expand products and services to meet customer demand
- Impact of competition upon price and market share
- Failure of IT infrastructure
- Internal control failure
- Shortfall in pension funding

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  
26 September, 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 2015.

### **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 2015, a dividend of £100 million was declared and paid (2014: £nil).

### **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:

J M Boler

J C Debus

C Vrieswijk (resigned 10 September, 2015)

J A Armstrong (appointed 15 September, 2015)

J K Schildt (resigned 8 July, 2016)

Thomas Cook Group Management Services Ltd

P Hutchings (appointed 17 June, 2016)

### **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.

### **FINANCIAL RISK MANAGEMENT**

Please refer to the Strategic Report for details of financial risks and measures implemented by the Company.

# THOMAS COOK AIRLINES LIMITED

## Directors' report (continued)

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 the company's 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 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 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

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as auditors of the Company.

On behalf of the Board,



John Boler  
Director

26 September, 2016  
Company Registration Number: 2012379

## **THOMAS COOK AIRLINES LIMITED**

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

## **Report on the revised financial statements**

### **Our opinion**

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

- give a true and fair view, seen as at the date the original financial statements were approved, of the state of the company's affairs as at 30 September 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice seen as at the date the original financial statements were approved; and
- have been prepared in accordance with the provisions of the Companies Act 2006 as they have effect under the Companies (Revision of Defective Accounts and Reports) Regulations 2008.

### **Emphasis of matter – revision of financial statements to correct a misstatement**

In forming our opinion on the revised financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to these revised financial statements concerning the need for revision because of the correction of a misstatement in the original financial statements. The original financial statements were approved on 17 February 2016. We have not performed a subsequent events review for the period from the date the original financial statements were approved to the date of this report.

### **What we have audited**

Thomas Cook Airlines Limited's financial revised statements comprise:

- the balance sheet as at 30 September 2015;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the notes to the revised financial statements, which include a summary of significant accounting policies and other explanatory information.

These revised financial statements replace the original financial statements approved by the directors on 17 February 2016.

The financial reporting framework that has been applied in the preparation of the revised financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

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 original financial statements for the year ended 30 September 2015 failed to comply with the requirements of the Companies Act 2006 in the respects identified by the directors in note 1 to these revised financial statements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the revised financial statements are prepared is consistent with the revised financial statements.

## **THOMAS COOK AIRLINES LIMITED**

### **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 the Directors' Responsibilities, 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) ("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 parent 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 the revised 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:

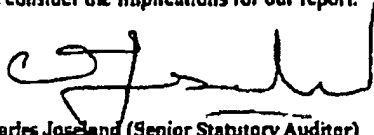
- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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.

## **THOMAS COOK AIRLINES LIMITED**

In addition, we read all the financial and non-financial information in the Revised Annual Report and Financial Statements to identify material inconsistencies with the audited revised 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 Joseand (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge  
28 September, 2016

# **THOMAS COOK AIRLINES LIMITED**

## **Income statement for the year ended 30 September 2015**

|  | Notes | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|--|-------|---|---|
| Revenue  | 3     | 1,073,882                                   | 980,639                                     |
| Cost of sales  |       | (884,747)                                   | (810,618)                                   |
| Cost of sales – Exceptional                          | 4     | (879)                                       | (71,929)                                    |
| <b>Gross profit</b>                                  |       | <b>188,256</b>                              | <b>138,092</b>                              |
| Other Operating income                               |       | -   | 31  |
| Other Operating income – Exceptional                 | 4     | -   | 1,828                                       |
| Operating expenses                                   | 5     | (96,788)                                    | (76,777)                                    |
| Operating expenses – Exceptional                     | 4     | (1,163)                                     | (25,017)                                    |
| <b>Operating profit</b>                              |       | <b>90,305</b>                               | <b>38,157</b>                               |
| Analysed between:                                    |       |   |   |
| Operating profit before exceptional items            |       | 92,347                                      | 93,275                                      |
| Exceptional items                                    | 4     | (2,042)                                     | (55,118)                                    |
| Interest receivable and similar income               | 6     | 2,006                                       | 1,859                                       |
| Interest payable and similar charges                 | 7     | (9,936)                                     | (10,875)                                    |
| Interest payable – Exceptional                       | 4.7   | -   | (1,074)                                     |
| <b>Profit on ordinary activities before taxation</b> | 8     | <b>82,375</b>                               | <b>28,067</b>                               |
| Income tax credit/(charge)                           | 10    | 2,972                                       | (3,189)                                     |
| <b>Profit for the financial year</b>                 | 25    | <b>85,347</b>                               | <b>24,878</b>                               |
| Attributable to:                                     |       |   |   |
| Equity holders of the parent                         |       | 85,347                                      | 24,878                                      |

All revenues and results arose from continuing operations.

# THOMAS COOK AIRLINES LIMITED

## Statement of comprehensive income and expense for the year ended 30 September 2015

|   |      | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|---|------|---|---|
|   | Note |   |   |
| <b>Profit for the financial year</b>  |      | <b>85,347</b>                               | <b>24,878</b>                               |
| <b>Other comprehensive income/(expense)</b>                                     |      |   |   |
| Actuarial gain/(loss) on defined benefit pension scheme                         | 25   | 62,092                                      | (13,394)                                    |
| Deferred tax - on current year actuarial loss on defined benefit pension scheme | 21   | (13,665)                                    | 2,947                                       |
| Effect of change in tax rate on defined benefit pension scheme                  | 21   | -   | (1,188)                                     |
| <b>Other comprehensive income/(expense) for the year, net of tax</b>            |      | <b>48,427</b>                               | <b>(11,635)</b>                             |
| <b>Total comprehensive income for the year</b>                                  |      | <b>133,774</b>                              | <b>13,243</b>                               |

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 2015

|  | Note | 30 September 2015<br>£'000 | 30 September 2014<br>£'000 |
|--|------|----------------------------|----------------------------|
| <b>Fixed assets</b>  |      |                            |                            |
| Tangible assets  | 11   | 183,498                    | 169,229                    |
| Intangible assets  | 12   | 39,986                     | 38,974                     |
| Investments  | 13   | 1,031                      | 1,031                      |
| Other investments – loans and receivables                      | 13   | 1                          | 373                        |
|  |      | <b>224,516</b>             | <b>209,607</b>             |
| <b>Current assets</b>  |      |                            |                            |
| Inventories  | 14   | 11,867                     | 12,766                     |
| Trade and other receivables – non-current assets               | 15   | 5,873                      | 6,250                      |
| Trade and other receivables – current assets                   | 15   | 562,789                    | 248,766                    |
| Deferred tax asset   | 21   | 10,018                     | 20,711                     |
| Cash at bank and in hand                                       | 17   | 2,590                      | 199,663                    |
|  |      | <b>593,137</b>             | <b>488,156</b>             |
| <b>Total assets</b>  |      | <b>817,653</b>             | <b>697,763</b>             |
| <b>Creditors: Amounts falling due within one year</b>          |      |                            |                            |
| Trade and other payables                                       | 16   | (303,489)                  | (195,853)                  |
| Borrowings   | 18   | (26,687)                   | (15,148)                   |
| Provisions for other liabilities and charges                   | 20   | (56,844)                   | (101,706)                  |
| Derivative financial instruments                               | 22   | (44,577)                   | (7,173)                    |
|  |      | <b>(431,597)</b>           | <b>(319,880)</b>           |
| <b>Net current assets</b>                                      |      | <b>161,540</b>             | <b>168,276</b>             |
| <b>Total assets less current liabilities</b>                   |      | <b>386,056</b>             | <b>377,883</b>             |
| <b>Creditors: Amounts falling due after more than one year</b> |      |                            |                            |
| Trade and other payables                                       | 16   | -                          | (11,031)                   |
| Borrowings   | 18   | (33,226)                   | (20,958)                   |
| Provisions for other liabilities and charges                   | 20   | (90,048)                   | (46,215)                   |
| Pension surplus/(deficit)                                      | 23   | 21,736                     | (48,935)                   |
|  |      | <b>(101,538)</b>           | <b>(127,139)</b>           |
| <b>Total liabilities</b>                                       |      | <b>(533,135)</b>           | <b>(447,019)</b>           |
| <b>Net assets</b>  |      | <b>284,518</b>             | <b>250,744</b>             |
| <b>Equity attributable to owners of the parent</b>             |      |                            |                            |
| Called up share capital  | 24   | 105,438                    | 105,438                    |
| Share-based payment reserve                                    |      | 4,720                      | 4,720                      |
| Retained earnings  | 25   | 174,360                    | 140,586                    |
| <b>Total equity</b>  |      | <b>284,518</b>             | <b>250,744</b>             |

The financial statements on pages 10 to 42 were approved by the board of directors and approved for issue on 26 September, 2016.

Signed on behalf of the board  
**John Boler, Director**  
 26 September, 2016

Company Registration Number: 2012379

# THOMAS COOK AIRLINES LIMITED

## Statement of changes in equity for the year ended 30 September 2015

|  | Called up<br>share capital<br>£'000 | Retained<br>earnings<br>£'000 | Share based<br>payment<br>£000 | Total equity<br>£'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<br>defined benefit pension scheme | -                                   | (13,665)                      | -                              | (13,665)              |
| Dividends paid   | -                                   | (100,000)                     | -                              | (100,000)             |
| At 30 September 2015   | <u>105,438</u>                      | <u>174,360</u>                | <u>4,720</u>                   | <u>284,518</u>        |

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 1. General information

The revised financial statements replace the original financial statements for the year ended 30 September 2015. These are now the statutory financial statements of the company for this period. These statements have been prepared as at the date of the original annual financial statements and not as at the date of revisions and accordingly do not deal with events between those dates.

The original financial statements under-recorded revenue by £3.7m and amounts due to group undertakings by £6.7m, and over-recorded cost of sales by £5.7m and Accruals and Deferred Income by £16.1m. The statement of comprehensive income, the balance sheet, the statement of changes in equity and notes 10, 16, 22 and 25 have been revised to correctly record these amounts.

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 2015 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 Great Britain, 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.

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.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 1. General information (continued)

#### Adoption of new or amended standards and interpretations in the current year

In the current year, the following new or amended standards have been adopted. Unless stated otherwise, their adoption has not had a significant impact on the amounts reported or the disclosure and presentation in these financial statements, but may impact the accounting or the disclosure and presentation for future transactions and arrangements.

#### New standards, amendments and interpretations adopted by the Company

The following new and amended standards are relevant to the Company and have been adopted for the first time in these financial statements:

- IAS 27 (revised 2011), 'Separate Financial Statements' (effective 1 January 2013) (endorsed 1 January 2014)
- Amendments to IAS 32 on financial instruments asset and liability offsetting (effective 1 January 2014)
- Amendment to IAS 36, 'Impairment of Assets' on recoverable amount disclosures (effective 1 January 2014)
- Amendment to IAS 39, 'Financial Instruments: Recognition and Measurement' on novation of derivatives and hedge accounting (effective 1 January 2014)

The adoption of these new and amended standards has not had a material impact on the Company financial statements.

#### Standards, amendments and interpretations not relevant to the Company

The following new and amended standards are not relevant to the Company and have not been adopted in these financial statements:

- IFRS 10, 'Consolidated Financial Statements' (effective 1 January 2013) (endorsed 1 January 2014)
- IFRS 11, 'Joint arrangements' (effective 1 January 2013) (endorsed 1 January 2014)
- IFRS 12, 'Disclosures of Interests in Other Entities' (effective 1 January 2013) (endorsed 1 January 2014)
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013) (endorsed 1 January 2014)
- Amendments to IFRS 10, 11 and 12 on transition guidance (effective 1 January 2013) (endorsed 1 January 2014)

#### Standards, amendments and interpretations not yet effective

The following new standards, amendments and interpretations are not yet effective. The Directors' do not believe adoption of these would have a material impact on the consolidated results or financial position of the Company.

The following new standards, amendments and interpretations are effective from the dates stated below.

Standards have been endorsed by the EU unless otherwise stated.

- IFRS 9, 'Financial Instruments' (effective 1 January 2018)

### 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.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 2. Significant accounting policies (continued)

#### **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.

##### *Licenses*

Licenses consist of maximum take-off weight licenses acquired to enable aircraft to fly with an increased load. They are carried at cost less accumulated depreciation. The licenses are amortised on a straight line basis over the remaining life of the lease of the aircraft.

##### *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 2015

### 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 liabilities 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.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 2. Significant accounting policies (continued)

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 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 expenditures 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 2015

### 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 2015

### 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 23.

### 3. Revenue

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.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 4. Exceptional items

|   | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|---|---|---|
| <b>Exceptional operating items – cost of sales:</b>   |   |   |
| Restructuring   | 879   | 929   |
| Provision for liability under ECJ EU261   | -   | 31,000                                      |
|   | <u>879</u>                                  | <u>31,929</u>                               |
| <b>Exceptional operating items – operating income:</b>  |   |   |
| Profit on disposal of NATS investment   | -   | (1,828)                                     |
| <b>Exceptional operating items – operating cost:</b>  |   |   |
| Impairment of amounts owed by group undertakings following dissolution of Thomas Cook Airlines UK Limited and Jupiter Leasing Limited | -   | 25,017                                      |
| Restructuring   | 1,163                                       | -   |
|   | <u>1,163</u>                                | <u>23,189</u>                               |
| <b>Total exceptional operating items</b>  | <u>2,042</u>                                | <u>55,118</u>                               |
| <b>Exceptional interest payable</b>   |   |   |
| Interest payable associated with HMRC settlement  | -   | 1,074                                       |
| <b>Total exceptional interest payable</b>   | <u>-</u>                                    | <u>1,074</u>                                |

Restructuring costs in Cost of Sales of £0.9m (2014: £nil) represent the costs of implementing a new operating model. Restructuring costs in Operating expenses of £1.2m (2014: £0.9m ) represents redundancy and relocation expenses.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 5. Operating expenses

|  | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|--|---|---|
| Operating expenses excluding exceptional items | 96,788                                      | 76,777                                      |
|  | <u>96,788</u>                               | <u>76,777</u>                               |

Included in the above is a £37.4m loss relating to the movement in the fair value of hedges (2014: £5.1m gain).

### 6. Interest receivable and similar income

|   | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|---|---|---|
| External bank and other interest receivable | -   | 230   |
| Unwinding of discount on aircraft deposits  | -   | 447   |
| Interest receivable from Group companies    | 2,006                                       | 1,182                                       |
|   | <u>2,006</u>                                | <u>1,859</u>                                |

### 7. Interest payable and similar charges

|   | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|---|---|---|
| External bank and other interest payable                                    | (2,007)                                     | (1,255)                                     |
| Unwinding of discount in respect of maintenance provisions                  | (3,653)                                     | (5,218)                                     |
| Net interest cost on defined benefit obligation (note 23)                   | (1,771)                                     | (1,825)                                     |
| Interest payable in respect of finance leases                               | (2,505)                                     | (2,577)                                     |
|   | <u>(9,936)</u>                              | <u>(10,875)</u>                             |
| Exceptional - Interest payable associated with HMRC settlement (see note 4) | -   | (1,074)                                     |
|   | <u>(9,936)</u>                              | <u>(11,949)</u>                             |

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 8. Profit on ordinary activities before taxation

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

|   | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|---|---|---|
| Net foreign exchange (gain)/ loss   | (6,385)                                     | 2,554                                       |
| (Gain) on fair value of currency hedges                                   | (5,459)                                     | (17,769)                                    |
| Gain on fair value of interest hedges                                     | (180)                                       | (243)                                       |
| Loss on fair value of fuel hedges   | 43,043                                      | 12,955                                      |
| Depreciation of property, plant and equipment – owned assets              | 12,332                                      | 8,388                                       |
| Depreciation of property, plant and equipment – held under finance leases | 32,554                                      | 27,333                                      |
| Amortisation of intangible assets   | 106   | 38  |
| Operating lease rentals payable – hire of plant and machinery (note 27)   | 79,068                                      | 66,641                                      |
| Exceptional operating items (see note 4)                                  | 2,042                                       | 55,118                                      |
| Staff costs (note 9)  | 110,414                                     | 105,511                                     |
| Auditors' remuneration  | 66  | 115   |

Auditors' remuneration is now paid by the Company directly. Previously, the audit fee was apportioned across the entities within the Group based on an allocation method and re-charged as part of an overhead re-charge.

### 9. Staff costs

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

| By Activity                             | Year ended<br>30 September<br>2015<br>Number | Year ended<br>30 September<br>2014<br>Number |
|---|--|--|
| Management and administration           | 337  | 310  |
| Flight Deck and Cabin Crew              | 1,648  | 1,552  |
|   | <u>1,985</u>                                 | <u>1,862</u>                                 |
|   | £'000  | £'000  |
| Their aggregate remuneration comprised: |  |  |
| Wages and salaries                      | 90,456                                       | 86,373                                       |
| Social security costs                   | 9,944  | 10,155                                       |
| Share based payment charge (Note 28)    | 114  | 272  |
| Other pension costs                     | 9,900  | 8,711  |
|   | <u>110,414</u>                               | <u>105,511</u>                               |

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 10. Income tax (credit) / charge

|  | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|--|---|---|
| <b>Current tax</b>                                       |   |   |
| UK corporation tax (credit) / charge for the year        | -   | -   |
| UK corporation tax adjustments in respect of prior years | -   | -   |
| <b>Total current tax (credit) / charge</b>               | -   | -   |
| <b>Deferred tax</b>                                      |   |   |
| Adjustment in respect of current years                   | (1,316)                                     | 2,421                                       |
| Adjustment in respect of prior years                     | (1,656)                                     | 768   |
| <b>Total deferred tax (credit) / charge</b>              | (2,972)                                     | 3,189                                       |
| <b>Total tax (credit) / charge</b>                       | (2,972)                                     | 3,189                                       |

In addition to the amount credited in the income statement, deferred tax relating to actuarial gains on pension schemes of £13.6m (2014: £1.8m) has been charged directly to equity.

Corporation tax is calculated at 20.5% (2014: 22%) of the estimated assessable profit for the period. This is the weighted average tax rate applicable for the period following a reduction in the standard rate of UK Corporation Tax from 21% to 20% effective from 1st April 2015.

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

|   | 2015<br>£'000  | 2014<br>£'000 |
|---|----------------|---------------|
| Profit before tax   | 82,375         | 28,067        |
| Expected tax charge at the UK corporation tax rate of 20.5% (2014: 22%) | 16,887         | 6,175         |
| Expenses not deductible for tax purposes                                | 23             | 5,565         |
| Adjustments in respect of prior years                                   | (1,656)        | 768           |
| Group relief received for nil consideration                             | (15,751)       | (8,579)       |
| Tax on pension recognised in other comprehensive income                 | (1,762)        | -             |
| Non taxable income  | (757)          | -             |
| Non-taxable write up of investment value                                | -              | (402)         |
| Deferred tax effect of reduction in the main rate of corporation tax    | 33             | (350)         |
| Depreciation not in deferred tax  | 11             | 12            |
| <b>Tax (credit)/charge and effective tax rate for the year</b>          | <b>(2,972)</b> | <b>3,189</b>  |

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 substantively enacted on 26 October 2015. The changes have not been substantially enacted at the balance sheet date and therefore are not recognised in these financial statements. The effect of these substantively enacted rates if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset (which has been calculated based on the rate of 20% substantively enacted at the balance sheet date) by approximately £1.6m.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 11. Tangible assets

|  | Fixtures<br>Fittings and<br>Equipment<br>£'000 | Motor<br>Vehicle<br>£'000 | Aircraft<br>and Spares<br>£'000 | Total<br>£'000 |
|--|--|---------------------------|---------------------------------|----------------|
| <b>Cost</b>                                    |  |                           |                                 |                |
| At 1 October 2014                              | 2,691  | 100                       | 356,018                         | 358,809        |
| Additions                                      | -  | -                         | 59,236                          | 59,236         |
| Disposals                                      | -  | -                         | (16,145)                        | (16,145)       |
| At 30 September 2015                           | <u>2,691</u>                                   | <u>100</u>                | <u>399,109</u>                  | <u>401,900</u> |
| <b>Accumulated depreciation and impairment</b> |  |                           |                                 |                |
| At 1 October 2014                              | 2,547  | 100                       | 186,933                         | 189,580        |
| Charge for the year                            | 57   | -                         | 44,829                          | 44,886         |
| Disposals                                      | -  | -                         | (16,064)                        | (16,064)       |
| At 30 September 2015                           | <u>2,604</u>                                   | <u>100</u>                | <u>215,698</u>                  | <u>218,402</u> |
| <b>Carrying amount</b>                         |  |                           |                                 |                |
| At 30 September 2015                           | <u>87</u>                                      | <u>-</u>                  | <u>183,411</u>                  | <u>183,498</u> |
| At 30 September 2014                           | <u>144</u>                                     | <u>-</u>                  | <u>169,085</u>                  | <u>169,229</u> |

The carrying amount of the Company's aircraft and spares includes an amount of £131.6m (2014: £120.3m) in respect of assets held under finance leases.

Depreciation of £44.9m has been charged to operating expenses (2014: £35.7m).

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 2015

### 12. Intangible assets

|                                 | Software<br>£'000 | Goodwill<br>£'000 | Licences<br>£'000 | Total<br>£'000 |
|---------------------------------|-------------------|-------------------|-------------------|----------------|
| <b>Cost</b>                     |                   |                   |                   |                |
| At 1 October 2014               | 1,365             | 37,606            | 428               | 39,399         |
| Additions                       | 1,118             | -                 | -                 | 1,118          |
| Disposals                       | -                 | -                 | (428)             | (428)          |
| At 30 September 2015            | <u>2,483</u>      | <u>37,606</u>     | <u>-</u>          | <u>40,089</u>  |
| <b>Accumulated amortisation</b> |                   |                   |                   |                |
| At 1 October 2014               | -                 | -                 | 425               | 425            |
| Amortisation charge             | 103               | -                 | 3                 | 106            |
| Disposals                       | -                 | -                 | (428)             | (428)          |
| At 30 September 2015            | <u>103</u>        | <u>-</u>          | <u>-</u>          | <u>103</u>     |
| <b>Net book value</b>           |                   |                   |                   |                |
| At 30 September 2015            | <u>2,380</u>      | <u>37,606</u>     | <u>-</u>          | <u>39,986</u>  |
| At 30 September 2014            | <u>1,365</u>      | <u>37,606</u>     | <u>3</u>          | <u>38,974</u>  |

In accordance with the accounting standards, the directors annually test the carrying value of goodwill for impairment. At 30 September 2015 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% (2014: 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 will be amortised from the date upon which the asset is brought into use.

Amortisation of £3,000 for licences has been charged to operating expenses (2014: £38,000).

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 13. Investments

|   | Subsidiary<br>undertakings<br>£'000 | Other<br>investments<br>- Loans and<br>receivables<br>£'000 | Total<br>£'000 |
|---|-------------------------------------|---|----------------|
| <b>Cost</b>                             |                                     |   |                |
| At 1 October 2014                       | 1,031                               | 373   | 1,404          |
| Additions                               | -                                   | 15  | 15             |
| Repayment                               | -                                   | (387)   | (387)          |
|   | <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>   |
| <b>Impairment</b>                       |                                     |   |                |
| At 1 October 2014 and 30 September 2015 | -                                   | -   | -              |
|   | <u>-</u>                            | <u>-</u>  | <u>-</u>       |
| <b>Net book value</b>                   |                                     |   |                |
| At 30 September 2015                    | <u>1,031</u>                        | <u>1</u>  | <u>1,032</u>   |
| At 30 September 2014                    | <u>1,031</u>                        | <u>373</u>  | <u>1,404</u>   |

The directors believe that the carrying value of the investments is supported by their value in use. During the year Thomas Cook Airlines UK Limited (re-named Close Number 19 Limited) was put in to members' voluntary liquidation and the capital was returned to the Company. In addition, a 100% investment in Thomas Cook Cabin Crews GmbH and My Travel 330 Leasing Limited was acquired.

The Company has the following subsidiaries:

| Name                                     | %<br>ownership of<br>ordinary<br>shares | Country of<br>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.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 14. Inventories

|                                    | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|------------------------------------|-------------------------------|-------------------------------|
| Goods held for resale              | 1,009                         | 860                           |
| Consumables                        | 21,673                        | 21,451                        |
| Less; provision for obsolete stock | (10,815)                      | (9,545)                       |
|                                    | <u>11,867</u>                 | <u>12,766</u>                 |

The cost of inventory recognised as an expense and included in cost of sales amounted to £7.2m (2014: £5.4m).

### 15. Trade and other receivables

|   | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|---|-------------------------------|-------------------------------|
| <b>Non-current assets</b>                           |                               |                               |
| Aircraft deposits                                   | 4,176                         | 3,979                         |
| Other receivables and prepayments                   | 1,697                         | 2,271                         |
|   | <u>5,873</u>                  | <u>6,250</u>                  |
| <b>Current assets</b>                               |                               |                               |
| Trade receivables                                   | 18,055                        | 42,243                        |
| Less: provision for impairment of trade receivables | (137)                         | (122)                         |
| Trade receivables – net                             | 17,918                        | 42,121                        |
| Aircraft deposits                                   | 1,260                         | 15,609                        |
| Other receivables and prepayments                   | 18,761                        | 36,198                        |
| Value Added Tax                                     | 2,340                         | 860                           |
| Amounts owed by Group undertakings                  | 522,510                       | 153,978                       |
|   | <u>562,789</u>                | <u>248,766</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 claims against maintenance events, in line with the ageing of the maintenance provisions.

|  | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--|-------------------------------|-------------------------------|
| <b>Movement in allowances for doubtful trade receivables</b> |                               |                               |
| At the beginning of the year                                 | (122)                         | (613)                         |
| Additional provision for receivables impairment              | (15)                          | (120)                         |
| Utilised   | -                             | 611                           |
| At the end of the year                                       | <u>(137)</u>                  | <u>(122)</u>                  |

As of 30 September 2015, trade receivables of £17.9m (2014: £41.3m) 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 2015, trade receivables of £0.2m (2014: £0.8m) were past due but not impaired. These relate to a number of

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 15. Trade and other receivables (continued)

customers for whom there is no recent history of default, and so are considered fully recoverable. The amount of £0.8m in amounts due up to 3 months in the prior year related to a balance owed by one customer in liquidation and has now been settled. The ageing analysis of these trade receivables is as follows:

|                | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|----------------|-------------------------------|-------------------------------|
| Up to 3 months | -                             | 803                           |
| 3 to 6 months  | 21                            | -                             |
| 6 to 12 months | -                             | -                             |
| Over 12 months | 134                           | -                             |
|                | <u>155</u>                    | <u>803</u>                    |

As of 30 September 2015, trade receivables of £0.1m (2014: £0.1m) were impaired and provided for. The amount of the provision was £0.1m as of 30 September 2015 (2014: £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<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|----------------|-------------------------------|-------------------------------|
| Up to 3 months | -                             | -                             |
| 3 to 6 months  | -                             | -                             |
| 6 to 12 months | -                             | -                             |
| Over 12 months | 137                           | 120                           |
|                | <u>137</u>                    | <u>120</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.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 16. Trade and other payables

|                                    | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|------------------------------------|-------------------------------|-------------------------------|
| <b>Current liabilities</b>         |                               |                               |
| Trade payables                     | 84,462                        | 86,835                        |
| Other taxation and social security | 20,187                        | 16,319                        |
| Accruals and deferred income       | 33,613                        | 64,700                        |
| Other payables                     | 8,401                         | 8,071                         |
| Amounts owed to Group undertakings | 156,826                       | 19,928                        |
|                                    | <u>303,489</u>                | <u>195,853</u>                |
| <b>Non-current liabilities</b>     |                               |                               |
| Other taxation and social security | -                             | 11,031                        |
|                                    | <u>-</u>                      | <u>11,031</u>                 |

The average credit period taken for trade purchases is 37 days (2014: 39 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.

### 17. Cash at bank and in hand

|                          | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--------------------------|-------------------------------|-------------------------------|
| Short term bank deposits | 2,582                         | 199,441                       |
| Cash at bank and in hand | 8                             | 222                           |
|                          | <u>2,590</u>                  | <u>199,663</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.

### 18. Borrowings

|  | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--|-------------------------------|-------------------------------|
| <b>Due within one year or on demand:</b> |                               |                               |
| Finance lease obligations (note 19)      | <u>26,687</u>                 | <u>15,148</u>                 |
| <b>Due after more than one year:</b>     |                               |                               |
| Finance lease obligations (note 19)      | <u>33,226</u>                 | <u>20,958</u>                 |

As at 30 September 2015, the Group had undrawn committed debt facilities of £453m (2014: £297m) and undrawn committed debt facilities plus cash available to repay revolving credit facility of £1,682m (2014: £1,168m). 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 2015

### 19. Obligations under finance leases

|  | Minimum lease payments |                   | Present value of lease payments |                   |
|--|------------------------|-------------------|---------------------------------|-------------------|
|  | 30 September 2015      | 30 September 2014 | 30 September 2015               | 30 September 2014 |
|  | £'000                  | £'000             | £'000                           | £'000             |
| Amounts payable under finance leases:  |                        |                   |                                 |                   |
| Within one year  | 29,348                 | 16,534            | 26,687                          | 15,148            |
| Between one and two years  | 19,092                 | 15,174            | 17,513                          | 14,421            |
| Between two and five years   | 14,202                 | 6,726             | 12,090                          | 6,537             |
| Greater than five years  | 3,623                  | -                 | 3,623                           | -                 |
|  | <u>66,265</u>          | <u>38,434</u>     | <u>59,913</u>                   | <u>36,106</u>     |
| Less: future finance charges   | (6,352)                | (2,328)           | -                               | -                 |
| Present value of lease obligations   | <u>59,913</u>          | <u>36,106</u>     | <u>59,913</u>                   | <u>36,106</u>     |
| Less: Amount due for settlement within 12 months (shown under current liabilities) |                        |                   | (26,687)                        | (15,148)          |
| Amount due for settlement after 12 months  |                        |                   | <u>33,226</u>                   | <u>20,958</u>     |

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

The average lease term at inception was 7.1 years (2014: 9 years) and the average remaining lease term is 2.9 years (2014: 3.2 years). For the year ended 30 September 2015 the average effective borrowing rate was 4.19% (2014: 4.84%). There were no lease obligations with fixed interest rates as at 30 September 2015 (in 2014: 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, 5 aircraft (2014: 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 2015

### 20. Provisions for other liabilities and charges

|                                     | <b>Maintenance<br/>Provisions<br/>£'000</b> | <b>EU261<br/>Provisions<br/>£'000</b> | <b>Total<br/>Provisions<br/>£'000</b> |
|-------------------------------------|---|---------------------------------------|---------------------------------------|
| At 1 October 2014                   | 107,807                                     | 40,114                                | 147,921                               |
| Foreign exchange differences        | (3,353)                                     | -                                     | (3,353)                               |
| Provisions created in the year      | 61,649                                      | 18,340                                | 79,989                                |
| Unwinding of discount               | 3,487                                       | -                                     | 3,487                                 |
| Utilisation of provisions           | (52,871)                                    | (28,281)                              | (81,152)                              |
| At 30 September 2015                | <b>116,719</b>                              | <b>30,173</b>                         | <b>146,892</b>                        |
| Included in current liabilities     | <b>26,671</b>                               | <b>30,173</b>                         | <b>56,844</b>                         |
| Included in non-current liabilities | <b>90,048</b>                               | <b>-</b>                              | <b>90,048</b>                         |
|                                     | <b>116,719</b>                              | <b>30,173</b>                         | <b>146,892</b>                        |

The maintenance provisions relate to maintenance on 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.

Included in utilisation of the maintenance provision is £13.4m which relates to the release of provision during the year as a result of the swap of operating lease to finance lease on 2 aircraft, which was taken to the profit and loss account.

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 historic 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 2015

### 21. Deferred tax asset

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

|                          | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--------------------------|-------------------------------|-------------------------------|
| Deferred tax assets      | 10,018                        | 20,711                        |
| Deferred tax liabilities | -                             | -                             |
| Net deferred tax assets  | <u>10,018</u>                 | <u>20,711</u>                 |

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

|                                  | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|----------------------------------|-------------------------------|-------------------------------|
| Beginning of the year            | 20,711                        | 22,141                        |
| Income statement credit/(charge) | 2,972                         | (3,189)                       |
| Credited direct to equity        | (13,665)                      | 1,759                         |
| End of the year                  | <u>10,018</u>                 | <u>20,711</u>                 |

Movements on the deferred taxation assets are as follows:

#### Deferred tax assets

|                           | Accelerated<br>tax<br>depreciation<br>£'000 | Retirement<br>benefit<br>obligations<br>£'000 | Total<br>£'000 |
|---------------------------|---|---|----------------|
| Balance at 1 October 2014 | 10,924                                      | 9,787   | 20,711         |
| Credited/(charged) to     |   |   |                |
| - income statement        | 3,442                                       | (470)   | 2,972          |
| - equity                  | -   | (13,665)                                      | (13,665)       |
| At 30 September 2015      | <u>14,366</u>                               | <u>(4,348)</u>                                | <u>10,018</u>  |

At the balance sheet date, the Company had short term timing differences of £71.8m (2014: £103.9m) available for offset against future profits. In addition, the company had short term timing differences of £21.7m (2014: nil) that will be charged in later periods.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 22. Financial instruments

#### Carrying values of financial assets and liabilities

The carrying values of the Company's financial assets and liabilities as at 30 September 2015 and 30 September 2014 are as set out below:

|                                    | Fair value<br>through<br>profit & loss<br>£'000 | Loans and<br>receivables<br>£'000 | Financial<br>liabilities at<br>amortised cost<br>£'000 |
|------------------------------------|---|-----------------------------------|--|
| <b>At 30 September 2015</b>        |   |                                   |  |
| Investments                        | -   | -                                 | -  |
| 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)  | -                                 | -  |
|                                    | <b>(44,577)</b>                                 | <b>553,092</b>                    | <b>(329,789)</b>                                       |

|                                    | Fair value<br>through<br>profit & loss<br>£'000 | Loans and<br>receivables<br>£'000 | Financial<br>liabilities at<br>amortised cost<br>£'000 |
|------------------------------------|---|-----------------------------------|--|
| <b>At 30 September 2014</b>        |   |                                   |  |
| Investments                        | -   | 373                               | -  |
| Trade and other receivables        | -   | 219,638                           | -  |
| Cash at bank and in hand           | -   | 199,663                           | -  |
| Trade and other payables           | -   | -                                 | (142,184)  |
| Obligations under financial leases | -   | -                                 | (36,106)   |
| Derivative financial instruments   | (7,173)   | -                                 | -  |
|                                    | <b>(7,173)</b>                                  | <b>419,674</b>                    | <b>(178,290)</b>                                       |

#### Derivative financial instruments

The fair values of derivative instruments as at 30 September 2015:

|   | Derivative<br>contracts<br>£'000 |
|---|----------------------------------|
| At 1 October 2014                               | (7,173)                          |
| Movement in fair value during the year (note 5) | (37,404)                         |
| At 30 September 2015                            | <b>(44,577)</b>                  |

|                     | 2015<br>£'000   | 2014<br>£'000  |
|---------------------|-----------------|----------------|
| Current assets      | 9,743           | 4,284          |
| Current liabilities | (54,320)        | (11,457)       |
|                     | <b>(44,577)</b> | <b>(7,173)</b> |

The Company uses derivative instruments to hedge against significant future transactions 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 2015

### 22. 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 the 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.

### 23. 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 9 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<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|---|-------------------------------|-------------------------------|
| Present value of funded obligations           | (421,789)                     | (420,586)                     |
| Fair value of scheme assets                   | 443,525                       | 371,651                       |
| <b>Asset/(Liability) in the balance sheet</b> | <b>21,736</b>                 | <b>(48,935)</b>               |

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 UK committed to make additional payments totalling £125.9m from February 2013 through to June 2017. During the year ended 30 September 2015, Thomas Cook UK paid lump sum contributions totalling £26m in line with the recovery plan.

The contributions made during the year totalled £11.8m (2014: £12.7m). The Company is expected to make aggregate contributions to its funded defined benefit scheme of £12.8m during the year commencing 1 October 2015. 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 2015

### 23. Pensions (continued)

The movement in the defined benefit obligation over the year is as follows:

|  | Present value<br>of obligation<br>£'000 | Fair value of<br>plan assets<br>£'000 | Total<br>£'000  |
|--|---|---------------------------------------|-----------------|
| <b>At 1 October 2013</b>   | <b>(364,219)</b>                        | <b>318,750</b>                        | <b>(45,469)</b> |
| Interest (expense)/income  | (19,230)                                | 17,405                                | (1,825)         |
| Expenses paid  | -                                       | (950)                                 | (950)           |
| Remeasurements   |   |                                       |                 |
| - Return on plan assets, excluding amounts included in interest income | -                                       | 32,336                                | 32,336          |
| - Loss from change in financial assumptions                            | (45,210)                                | -                                     | (45,210)        |
| - Experience losses and demographic assumptions                        | (520)                                   | -                                     | (520)           |
| Employers contributions  | -                                       | 12,703                                | 12,703          |
| Benefit payments from plan   | 8,593                                   | (8,593)                               | -               |
| <b>At 30 September 2014</b>  | <b>(420,586)</b>                        | <b>371,651</b>                        | <b>(48,935)</b> |
|  |   |                                       |                 |
|  | Present value<br>of obligation<br>£'000 | Fair value of<br>plan assets<br>£'000 | Total<br>£'000  |
| <b>At 1 October 2014</b>   | <b>(420,586)</b>                        | <b>371,651</b>                        | <b>(48,935)</b> |
| 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)                              | -               |
| <b>At 30 September 2015</b>  | <b>(421,789)</b>                        | <b>443,525</b>                        | <b>21,736</b>   |

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

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 23. Pensions (continued)

The significant actuarial assumptions were as follows:

|                                      | 2015 | 2014 |
|--------------------------------------|------|------|
|                                      | %    | %    |
| Discount rate for scheme liabilities | 3.90 | 4.00 |
| Inflation rate (RPI)                 | 3.00 | 3.25 |
| 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 23.3 years for men and 25.3 years for women.

The fair value of the plan assets is detailed below:

|                           | 2015           |                            | 2014           |                            |
|---------------------------|----------------|----------------------------|----------------|----------------------------|
|                           | Quoted         | Proportion of total assets | Quoted         | Proportion of total assets |
|                           | £'000          | %                          | £'000          | %                          |
| Cash and cash equivalents | 4,435          | 1                          | 4,451          | 1                          |
| Equity instruments        | 126,987        | 28                         | 104,559        | 28                         |
| Debt instruments          | 110,881        | 25                         | 91,950         | 25                         |
| Real estate               | 47,118         | 9                          | 32,877         | 9                          |
| Derivatives               | 53,223         | 12                         | 44,581         | 12                         |
| Investment funds          | 110,881        | 25                         | 93,233         | 25                         |
|                           | <u>443,525</u> |                            | <u>371,651</u> |                            |

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 plc.

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 £9,900,000 (2014: £8,711,000).

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

At 30 September 2015 there were no amounts prepaid or outstanding in relation to the defined contribution scheme (2014: £nil).

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 24. Called up share capital

|  | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--|-------------------------------|-------------------------------|
| <b>Authorised, allotted, issued and fully paid</b>         |                               |                               |
| 105,437,500 (2014: 105,437,500) ordinary shares of £1 each | <b>105,438</b>                | <b>105,438</b>                |

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.

### 25. Retained earnings

|   | £'000          |
|---|----------------|
| <b>Balance at 1 October 2014</b>  | <b>140,586</b> |
| Profit for the year   | 85,347         |
| Actuarial gain on defined benefit pension scheme                                | 62,092         |
| Deferred tax - on current year actuarial gain on defined benefit pension scheme | (13,665)       |
| Dividend paid   | (100,000)      |
| <b>Balance at 30 September 2015</b>   | <b>174,360</b> |

### 26. Contingent liabilities

At 30 September 2015 the Company has given guarantees and counter indemnities to banks totalling £14.5m (2014: £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 £308.3m (2014: £148.5m).

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 £46.6m (2014: £3.3m).

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 £964m (2014: £1,002.4m) bond amount.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 27. Operating lease arrangements

#### The Company as lessee

|   | Year ended<br>30 September<br>2015<br>£'000 | Year ended<br>30 September<br>2014<br>£'000 |
|---|---|---|
| Minimum lease payments under operating leases<br>recognised in expense for the year | 79,068                                      | 66,641                                      |

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<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--|-------------------------------|-------------------------------|
| Within one year                        | 66,595                        | 81,642                        |
| In the second to fifth years inclusive | 338,687                       | 310,738                       |
| After five years                       | 232,907                       | 464,080                       |
|  | <u>638,189</u>                | <u>856,460</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 £27.1m ( 2014; £30.2m). At the balance sheet date, the Company had outstanding commitments for future minimum lease payments from lessees of £440m ( 2014:£419m).

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 2015

#### 28. Share based payments

##### Equity-settled share option scheme

The Company operates five 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 £113,802 (2014: £272,138).

##### *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 2008 Co-Investment Plan (COIP)*

Executive Directors and senior executives may be required to purchase the Company's shares using a proportion of their net bonus (Lodged Shares). For each Lodged Share purchased, participants may receive Matching Shares if performance targets are met during the three years following the date of grant.

##### *The Thomas Cook Group plc 2008 HM Revenue & Customs Approved Buy As You Earn Scheme (BAYE)*

Eligible UK tax-paying employees are offered the opportunity to purchase shares in the Company by deduction from their monthly gross pay. For every 10 shares an employee buys, the Company will purchase one matching share on their behalf.

##### *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 Thomas Cook 2014 Deferred Bonus Plan (DBP)*

Executive Directors and a small number of senior Executives of the Company and its subsidiaries are granted contingent share awards of the ordinary shares of the Company, relating to a proportion of their annual bonus. Awards are subject to forfeiture if a clawback event occurs during the period that the award is held.

# THOMAS COOK AIRLINES LIMITED

## Notes to the financial statements for the year ended 30 September 2015

### 28. Share based payments (continued)

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

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

|  | 2014 |     |      |      |       |
|--|------|-----|------|------|-------|
|  | PSP  | RSP | COIP | SAYE | CSOSP |
| Exercise price (£)                         | -    | -   | -    | 1.57 | 1.97  |
| Average remaining contractual life (years) | 1.4  | 1.8 | 0.7  | 0.3  | 6.3   |

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.

### 29. Directors' remuneration

#### *Directors' emoluments*

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

|  | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--|-------------------------------|-------------------------------|
| Aggregate emoluments in respect of qualifying services | 714                           | 597                           |
| Company pension contributions                          | 82                            | 40                            |
| Share based payments                                   | 50                            | -                             |
|  | <u>846</u>                    | <u>637</u>                    |

4 directors (2014: 4) are included in the defined contribution scheme for 2015, and no directors (2014: none) in the final salary scheme.

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

|  | 30 September<br>2015<br>£'000 | 30 September<br>2014<br>£'000 |
|--|-------------------------------|-------------------------------|
| Aggregate emoluments in respect of qualifying services | 287                           | 388                           |
| Company pension contributions                          | 21                            | 28                            |
|  | <u>308</u>                    | <u>416</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".

## **THOMAS COOK AIRLINES LIMITED**

### **Notes to the financial statements for the year ended 30 September 2015**

#### **30. 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.