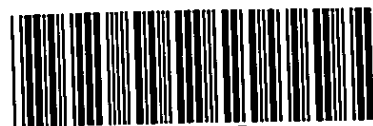


Logo removed

# Transformation

## The first 365 days

WEDNESDAY



\*A34GK58Z\*

A04

26/03/2014

#211

COMPANIES HOUSE

<b>Strategic report</b>	
Overview	2
At a glance	4
Chairman's statement	8
Group Chief Executive Officer's Q&A	10
Market overview	16
Business overview	17
Review of strategy	20
Our people	25
Risk management	30
<b>Performance</b>	
Financial review	32
Operating review	42
Sustainability	47

<b>Directors' report</b>	
Board of Directors	50
Corporate governance report	52
Remuneration report	70
Other disclosures	88

<b>Financial statements</b>	
Independent auditors' report	90
Group income statement	93
Group statement of other comprehensive income	94
Group cash flow statement	95
Group balance sheet	96
Group statement of changes in equity	98
Notes to the financial statements	99
Company balance sheet	148
Company cash flow statement	149
Company statement of changes in equity	150
Notes to the Company financial statements	151
Shareholder information	158

## Financial highlights

### Delivering improved financial results

Underlying EBIT up by £86 million year on year

# £263m

### Delivering stronger margins

Underlying gross margin 22.1%  
(up 80 basis points year on year)

# 22.1%

### Delivering more cost out and profit improvement benefits

Cumulative total £194 million  
(FY13 target of £170 million)

# £194m

### Delivering a stronger balance sheet

Net debt reduced from £788 million in 2012

# £421m

### Delivering more operational cash flow

Cash conversion ratio at 48%  
on a last 12 months basis

# 48%

## Financial summary

£m (unless otherwise stated)	Year ended 30 September 2013		Year ended 30 September 2012	
	Underlying	Statutory	Underlying	Statutory
Revenue	9,315	9,315	9,195	9,195
EBIT	263	13	177	(170)
EBIT margin (%)	2.8%	0.1%	1.9%	N/A
Free cash flow	53	53	(103)	(103)
Earnings (loss) per share (p)	5.0p	(16.7)p	0.6p	(67.2)p
Net debt	(421)	(421)	(788)	(788)

## Operational highlights

- > Significant transformational progress – delivered UK underlying EBIT margin of 2.2% on a like for like basis, on track to achieve a 5% margin on the same basis by FY15
- > Incremental new product revenue grew by £94 million in FY13, including contributions from concept hotels, partnership hotels and city breaks, leading to an increase in our FY15 target of incremental new product revenue to £700 million
- > Increased the percentage of holidays booked online to 36% moving towards our target in FY15 of over 50%
- > Simplified brand labels from 85 to 30, unifying them under the Sunny Heart symbol representing for our customers personalised and trusted holidays, high tech high touch delivery backed by market leading international scale and purchasing power
- > Successful implementation of an internal and disciplined operating model called "The Thomas Cook Business System". Under this system with our customer at the heart of everything we do, as well as how and everywhere we do it we aim to bring further professionalism to the high tech, high touch delivery of trusted personalised products to all our customers supported by a lean and innovative operating system that is designed specifically to serve their needs

Throughout this document the term 'underlying' refers to trading results after adjusting statutory results for separately disclosed items that are significant in understanding the ongoing results of the Group. Separately disclosed items are included on the face of the income statement and are detailed in Note 7 to the financial statements.

Free cash flow is shown on page 37 and represents Operating Cash Flow less Net Interest Capital Expenditure and Separately Disclosed Items.

# Transformation:

## Inspiring personal journeys

The first phase of our exciting Transformation is well underway.

Every day we are transforming towards an improved, more unique business model and have already delivered some significant milestones. We've defined our 'high tech, high touch' strategy for profitable growth, committing to be there for our customers wherever, whenever and however they need us, building a digital presence for the future.

We're developing a new and differentiated product portfolio, inspiring our customers' personal journeys with the assurance of quality they have come to expect from the global pioneer in travel. We're living the values of the 'Sunny Heart' with trust, innovation and personalisation at the heart of all we do.

With the Thomas Cook Business System we now have the methodology to further professionalise our business.

After the first 365 days of our Transformation we have a clear strategy for profitable growth, we have momentum and we're delivering against our targets.

**And this is just the start...**

1  
Strategic report

2  
Directors' report

3  
Financial statements

*Let's  
go!*

## Transformation the first 365 days

Overview: Our transformational milestones

# Landmarks towards profitable growth

The share price graph below shows some of our landmarks towards profitable growth during the year

Graph removed

Share price chart pence

**13** Capital Markets Day  
**MAR** (announcement of growth strategy and profit improvement plans)

**04** First Thomas Cook  
**SEP** Leadership Council

Graphic removed

**01** Launch of Digital  
**MAR** Advisory Board

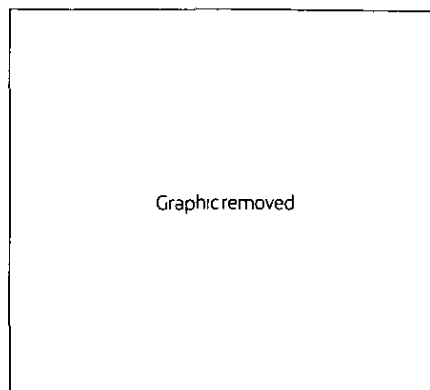
Graphic removed

**01** Peter Fankhauser  
**NOV** appointed as CEO, UK and Continental Europe

**FEB** Code of Conduct  
**2013** launched Group-wide

Image removed

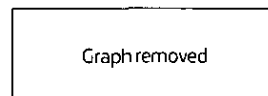
Graph removed



**16** Half-year results & announcement  
MAY of capital refinancing plan

**01** Launch of Sunny  
OCT Heart brand

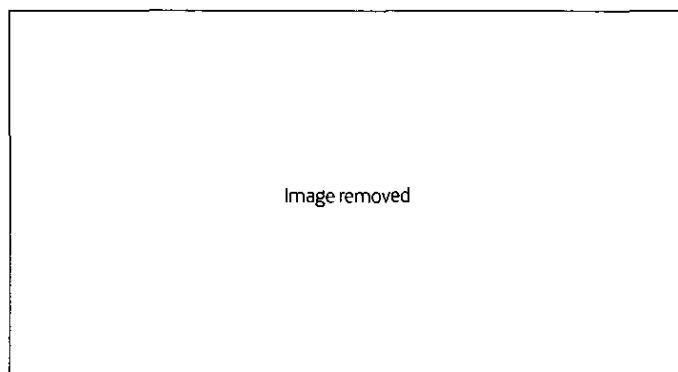
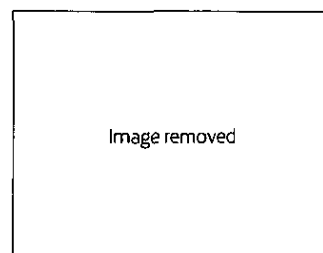
**MAY** "Destination  
2013 Discovery"  
launched



**↑£58.7m**

First half underlying EBIT  
on a like for like basis  
improved by £58.7 million  
to £(197.5) million

**03** Launch of the  
SEP "Every Voice" employee  
engagement survey



## Transformation the first 365 days

Overview: At a glance

# Building on our strengths

We are one of the world's leading leisure travel companies, with operations in 17 source markets. Our core business model is that of a tour operator, sourcing holiday components by creating them ourselves or procuring them from third parties, and selling them to consumers via online and offline channels. We enjoy number one or number two positions (by revenue) in each of our core markets.

## We have a robust investment case

Business model explained  
On page 17

**We have a compelling data-backed investment case, the delivery of which is specific and measurable:**

It is based on three key drivers

- 1 **Profitable growth supported by new product**
- 2 **Digital growth supported by innovation**
- 3 **Cost out and profit improvement**

It is measured through specific targets as follows

**Our targets and Key Performance Indicators (KPIs) for our Transformation and profitable growth strategy**

	FY12 actual	FY13 actual	FY14 target	FY15 target
<b>Targets</b>				
New product revenue	N/A	£94m	> £300m	> £700m
Web penetration <sup>1</sup>	34%	36%	>40%	>50%
Cost out/profit improvement (cumulative run rate)	£60m	£194m	>£340m	>£440m
Sales CAGR <sup>2</sup>	N/A	N/A	>2.5%	>3.5%
<b>KPIs</b>				
Underlying gross margin improvement <sup>3</sup>	N/A	0.8%	>1.2%	>1.5%
Underlying UK EBIT margin	0.1%	2.2%	>3.5%	>5%
Cash conversion <sup>4</sup>	11%	48%	>55%	>70%

**Notes**

<sup>1</sup> Measured on a last 12 months departed basis

<sup>2</sup> Compound annual growth rate from FY13 to FY15 including new product revenue

<sup>3</sup> Underlying gross margins adjusted for disposals and shop closures on a like for like basis

<sup>4</sup> Cash conversion defined as net cash from operating activities less interest paid as a percentage of underlying EBITDA

## We have a strong financial plan in place

Full financial statements  
From page 90

**We have developed a strong financial plan for profitable growth from a solid base, underpinned by**

1. **An improved financial position following the recent recapitalisation**
2. **Detailed "bottom up" plans owned by each of our businesses**
3. **Embedded targets and KPIs aligned with our external commitments.**

- > The Group has a medium term planning horizon supported by detailed financial projections prepared and owned by each business
- > The plan for each business is rigorously reviewed by Group and segment management through a series of meetings to produce a robust result

- > The Group financial plan is reviewed and approved by the Board on an annual basis and updated regularly to reflect changes to projections as they arise
- > The approved plan is fully aligned with externally communicated targets and KPIs and with management's objectives and remuneration schemes

## Our brand approach and values

### We delight customers with trusted, personalised holiday experiences through High Tech and High Touch

#### Brand approach

Graphic removed

#### High tech, high touch

70% of travellers want a relationship with their holiday provider that goes beyond just booking and paying for a trip 93% of travellers either search for content online or express a preference for booking online if possible

Related case study  
On page 40

#### Brand values

Graphic removed

#### Trusted

Trust, consistency and a strong brand are the most important drivers of customer choice

Related case study  
On page 15

Graphic removed

#### Innovative

We continue to enrich our online offer with leading digital innovations to improve conversion rates

Related case study  
On page 29

Graphic removed

#### Personal

50% of travellers feel overwhelmed by the amount of information and choice when booking 66% of travellers want help in choosing the right product for them

Related case study  
On page 46

1  
Strategic report

## We have a new, diverse and experienced Executive Committee

On 7 November 2013, we announced the completion of the Executive Committee, which is another step on our journey to further professionalise the Group, break down regional silos and realign leadership responsibilities to accelerate the delivery of our strategy for sustainable profitable growth

#### Executive Committee

Graphic removed  
Group CEO  
Harriet Green

Graphic removed

**Chief Financial Officer**  
Michael Healy

Graphic removed

**Chief Operating Officer**  
Peter Fankhauser

Graphic removed

**Group Head of Air Travel**  
Christopher Debus

Graphic removed

**Chief Digital Officer**  
Interim ECE Head supported by James Sandford

Graphic removed

**Chief Technology Officer**  
Tomasz Smaczny

Graphic removed

**General Counsel and MA**  
Craig Stoehr

Graphic removed

**Chief People Officer**  
Sandra Campopiano

#### Diversity indicator

5  
countries

5 British  
1 US  
1 Swiss  
1 German  
1 Polish

2  
Directors report

## Our people

Our people expanded  
On page 25

Building an Effective Organisation is central to our Transformation and, over the last year, we have established and continue to secure the foundations of a culture and structure that will be able to execute and deliver our Transformation effectively During the year we have focused on ensuring that we have the right people in the right roles focused on the right priorities We have identified and communicated new Values, Ways of Working and introduced a Code of Conduct across the Group

Graphic removed

3  
Financial statements

Let's go!

**Transformation** the first 365 days

Overview At a glance continued

# Building on our regional knowledge

Thomas Cook Group plc is one of the world's leading leisure travel groups with sales of over £9 billion and more than 20 million customers in the year ended 30 September 2013. Thomas Cook is supported by approximately 27,000 employees and operates from 17 source markets, it is number one or two (by revenue) in all its core markets. Thomas Cook Group plc's shares are listed on the London Stock Exchange (TCG)

Graph removed

Graph removed

**Key facts**

Passengers 6.2 million  
Retail outlets 874  
Aircraft 31  
Controlled distribution 86.7%  
Internet distribution 41.7%

**Employees**

12,544

**UK and Ireland**

The turnaround of our UK business continues at pace. Focus on improved quality of earnings and simplification leaves us on track to achieve our FY15 underlying EBIT margin target of >5%.

	2013	2012
Revenue	<b>£2,977m</b>	£3,110m
Gross margin %	<b>25.9%</b>	24.8%
Underlying EBIT	<b>£66m</b>	£2m
Underlying EBIT %	<b>2.2%</b>	0.1%

**Continental Europe**

Strict capacity management, leveraging the benefits of our hotel strategy have delivered strong EBIT growth in Continental Europe with good progress in turning round our loss making businesses in France and Russia.

	2013	2012
Revenue	<b>£4,195m</b>	£4,085m
Gross margin %	<b>13.8%</b>	14.1%
Underlying EBIT	<b>£78m</b>	£52m
Underlying EBIT %	<b>1.8%</b>	1.3%



Map removed

**Key facts**

Passengers 1.5 million  
 Retail outlets 11  
 Aircraft 5  
 Controlled distribution 88.2%  
 Internet distribution 72.1%

**Employees**

3,090

Strategic report 1

**Key facts**

Passengers 6.9 million<sup>1</sup>  
 Aircraft 39

**Employees**

2,917

Directors' report 2

**Key facts**

Passengers 7.2 million  
 Retail outlets 2,327  
 Aircraft 5  
 Controlled distribution 36.3%  
 Internet distribution 13.0%

**Employees**

7,253

Financial statements 3

**Airlines Germany**

Increased capacity and strong yield management combined with benefits from our One Airline implementation have driven strong EBIT growth in Airlines Germany despite challenging market conditions

	2013	2012
Revenue	£1,312m	£1,165m
Gross margin %	28.6%	27.5%
Underlying EBIT	£48m	£36m
Underlying EBIT %	3.7%	3.1%

<sup>1</sup> Includes 2.2 million in house passengers

**Northern Europe**

Continued strength in the traditional packaged holiday market whilst developing capability in dynamic packaging have delivered record EBIT in Northern Europe

	2013	2012
Revenue	£1,239m	£1,174m
Gross margin %	27.4%	26.9%
Underlying EBIT	£109m	£101m
Underlying EBIT %	8.8%	8.6%

## **Transformation** the first 365 days

Overview. Chairman's statement

# A year of positive change and significant achievement

We have built a firm foundation and we believe the Group has the potential to create significant value in the future.

Image removed

### **Dear Shareholder**

It is a real pleasure to report a year of positive change and significant achievement, a year when we have successfully delivered the first year of our Transformation and significantly improved our financial performance, a year when we have developed and started to deliver against our strategy for profitable growth, a year when we have successfully strengthened our balance sheet with the completion of our £1.6 billion Capital Refinancing Plan and an ongoing range of internal disciplines.

These achievements are significant by any standards and 2012/13 will be a year to remember in the history of this great Company. But this is just the start. We have built a firm foundation from which we will continue to deliver against our targets and KPIs as our strengthened Management Team, under the leadership of Harriet Green, continue to drive forward our Transformation and implement our strategy for profitable growth.

## Transformation and strategy for profitable growth

Our Transformation has, out of necessity, challenging targets and against a range of measures we have exceeded our original expectations. Under the leadership of Harriet Green and her Management Team we have successfully reversed the negative trends of the past by improving the performance of the businesses, improved cash flow, almost halved net debt, taken significant cost out of the business and increased the cost out targets for future years. The considerable progress made in the first half of the year enabled us to strengthen the balance sheet with the £1.6 billion Capital Refinancing Plan, including extended maturities of our bank facilities. We made disposals to focus on our core businesses, conducted one of the most in-depth surveys of travellers to provide valuable data to support the development of our strategy for profitable growth (which was presented to investors in March 2013) and started to deliver against that strategy.

The unification of our brands under one common symbol, the Sunny Heart supported by our new brand values and our "One Airline" approach are just two of many examples of how we are working together, tearing down the walls across the Segments and leveraging the combined power of the Group. The significant progress made throughout the year, has helped attract high calibre talent to many areas of the business to support and drive further progress against our targets.

## Corporate culture

A major feature in the Transformation has been the development of Group-wide Values, Ways of Working and standards combined within a Code of Conduct. The Code was developed by managers and employees across the Group and sets out in clear language the standards of behaviour that are required by all of our employees wherever they may work. The Board fully recognises that an organisation's culture is an important part of ensuring that our progress is sustainable and we have paid particular attention to the introduction and roll out of the Code to ensure it is firmly embedded across the Group. The Board is encouraged by the significant progress that has been made in each aspect of the Transformation.

It is however particularly pleasing to see evidence of a cultural shift having taken place, with the silos of old broken down and our people working together as one Group.

## Building a stronger and more diverse Board

We have strengthened the Board with the addition of three independent Non-Executive Directors. In reviewing the construct of the Board we aim to ensure we have high calibre individuals, who possess the range of skills and experience that we need to ensure quality contribution to our decision making. I am pleased that Emre Berkin joined the Board in November 2012 and Carl Symon and Warren Tucker in October 2013. We welcome the breadth of skills and experience that they bring to our deliberations.

Roger Burnell, who has served the Board well over the years, most recently as Senior Independent Director and Chair of the Remuneration Committee, has decided to retire at the AGM in February 2014. He has served on the Board of the Company and, prior to the merger in 2007, MyTravel Group plc, for a total period of just over 10 years. I would like to thank Roger for his contribution to the Board and particularly for chairing the Remuneration Committee during a period of significant change and improvement to our executive remuneration arrangements. Upon Roger's retirement, Carl Symon will take on the role of Senior Independent Director and Warren Tucker will become Chair of the Remuneration Committee.

We strongly believe that diversity adds significant value to the quality of discussion and decision making and we are pleased with the progress made by both the Board and Executive Committee. The Board currently comprises three women and seven men, of which six are based in the UK, two in Continental Europe, one in Turkey and one in the US. When looking for additional Non-Executive Directors, we will search in countries in which we have significant operations to capture relevant local knowledge, as well as a broad range of skills appropriate to our Boardroom. In my report on governance, I give more detail on the progress we have made in respect of the effectiveness of the Board and the action plan that we have in place to develop this further.

## Our employees

The pace of change as we drive forward our Transformation is made possible by the hard work and delivery by our management and employees. On behalf of the Board, I would like to thank them for their significant contribution in delivering a sustainable future for all our stakeholders.

## Engaging with our important stakeholders

Our many stakeholders are important to our business and we appreciate their tremendous support and loyalty in recent years.

In addition to our shareholders, I would like to thank the banks, bondholders and our key regulators for their support before, during and after executing our £1.6 billion Capital Refinancing Plan. We will continue to engage with them as we deliver our Transformation and strategy for profitable growth. We should also recognise our corporate advisors, who have helped the Board steer a steady course during the past few years.

## Sustainable future

The Board is delighted with the progress achieved to date, which is reflected in the ten-fold increase to our share price in the past year. Although we recognise there is much more to do as we implement our strategy for profitable growth, the Board is confident of a sustainable future as our management across the Group, under the leadership of Harriet Green and her Executive Team, continue to build on our firm foundations and deliver beyond the targets we have set for 2015. Through using the Thomas Cook Business System to further improve the Group, the Board believes that the Group has the potential to create significant shareholder value in the future.

**Frank Meysman**  
Chairman  
27 November 2013

Strategic report 1

Directors' report 2

Financial statements 3



## Transformation the first 365 days

### Group Chief Executive Officer's Q&A

# The first 365 days of Transformation

The momentum we have created in the first 365 days will continue now into year two with even greater focus and commitment from the team at Thomas Cook. This is an exciting journey as we build for the future.

Image removed

The travel industry is changing at pace as consumers require greater flexibility, greater choice and products personalised to meet their needs. Technology offers so much opportunity for customers to connect in many different ways and the Transformation of Thomas Cook will combine the "high tech" innovation that customers need with the "high touch" trusted, personal service at the heart of the world's oldest travel brand.

The Thomas Cook Group is on a Transformation journey, and here I answer some of the questions I have been asked about my reflections on the first 365 days of that Transformation, as we now look forward to year two of our journey.

**Successfully completed recapitalisation****£1.6bn**

Revenue up by

**1.3%**

Costs down by

**3%**

Free cash flow up by

**£156m****Q: What have been your highlights of the past year?**

**A** It's been a year of significant milestones for the Group – each one highly impactful, and an important next step on the journey. Our immediate priorities were to stabilise the business and create a solid foundation from which we could begin to deliver our newly outlined strategy for profitable growth.

At the same time we had to re-instil a strong sense of belief both internally and externally with our key stakeholder groups that we are focused on the right activities to return this amazing brand to strength, and we had to deliver against our commitments. In the first 365 days of the Transformation of Thomas Cook we have effected a rigorous and rapid turnaround of the business and set out a robust strategy of sustainable profitable growth. This pace will continue into the year ahead as we gain momentum, developing a high performance culture and a methodology to further professionalise the organisation.

We conducted one of the most far-reaching surveys of the leisure travel market in our early work, seeking the opinions of 18,000 consumers (including both Thomas Cook customers and non-customers) across our key source markets of the UK, Germany and Sweden. The findings were invaluable as we began to develop our strategy for profitable

growth based on facts and data to ensure our new strategic focus would deliver products and services to meet the needs of today's leisure traveller to inspire their personal journeys.

Our strategy for profitable growth gradually took shape, and on 13 March we announced our plans to the capital markets, on 27 June we successfully completed our £1.6 billion recapitalisation and on 1 October 2013 we announced our unified brand strategy. Our disposals programme continues to gain momentum in line with the targets we have set ourselves. All of our strategic commitments are underpinned by a strict timeline for delivery with robust KPIs and financial targets. Delivering against our commitments is a vital part of the re-energising of Thomas Cook.

We have already made strong progress against many of the metrics – and where progress has been faster than expected, notably in the areas of new product development, our cost out and profit improvement drive and also cash conversion, the targets have now been increased, as you will see on page 20.

Exceeding expectations and developing a methodology to further professionalise the business is vital if we are to restore shareholder confidence and once again take a leadership role in shaping the future of travel.

At the end of the first 365 days, underlying revenue had grown 1.3%, despite capacity reductions, costs are down 3% and underlying EBIT is up 49% to £263 million. Free cash flow, an important driver in the continuing deleverage of the business, is up £156 million. Net debt has almost halved and loan maturities have been extended.

In order to drive the change that the business required, I needed to strengthen the leadership team and invest time and energy to ensure we have the right skills in place to lead the Transformation. We needed to change the culture – to put the needs of our customers and people back at the heart of the business. We have made real progress already in our quest to build a culture of high performance and accountability, stripping away layers of management between my Executive team and the customer, all consistent with our focus to take out cost and drive a leaner organisation, as more and more customers use the web to research and purchase.

One third of the senior leadership team are long-standing members of the Thomas Cook leadership team, bringing relevant knowledge and perspective, one third were promoted from within as strong talent and one third bought in from outside to bring specialist skills, expertise and discipline to the organisation. Travel has historically been quite siloed and there is so much that can be learned from other industries, providing opportunity for progress – creating a truly differentiated offering for customers and business partners alike. Internally we have a saying that we will be “lavish with our customers and lean with ourselves”.

The strengthened leadership team have been critical to the success to date – as we build an effective organisation. We will continue to invest in their development, whilst attracting new talent, as required. The formation of my new Executive Committee will ensure that we continue to drive our strategic progress with rigour, breaking down silos and working across the Group where appropriate whilst maintaining close local contact with our customers and their specific market needs. We are driving a change of culture, pace and professionalism with our Code of Conduct and Values, now embedded throughout the business, helping to guide how we work. The formation of my ExCo will help to streamline decision making and ensure we act as one Group, whilst aligning our leadership responsibilities even more robustly to the strategy to ensure that our next 365 days of Transformation deliver results in the same way as the first.

In a year of firsts we have also invested in our people. As part of the cost out drive we had to take out a number of roles – always regrettable but also essential if we were to secure the business for the long term, encouraging us to work smarter and reducing costly admin and unnecessary processes, that did not benefit our customers or shareholders. Those who left were treated with dignity and respect and given support to help them take the next steps in their career. Through the consultation process over 800 employees, originally placed at risk, were redeployed in new roles, keeping their knowledge and skills in the business for the benefit of customers and shareholders.

1  
Strategic report2  
Directors' report3  
Financial statements*Let's go!*

## Transformation the first 365 days

### Group Chief Executive Officer's Q&A continued

When I started at Thomas Cook, I asked our teams globally to share with me their thoughts. 8,000 of them did – candid, actionable feedback from the frontline. In September 2013 we conducted our first all employee engagement survey to sense check our progress with all of our employees. In a service business like Thomas Cook, where customers trust us to inspire and deliver their personal journeys, engaged employees who believe in our end goal are vital to customer satisfaction and loyalty – and ultimately our ability to deliver profitable growth. Engaging our employees in the Transformation has been vital and we have worked hard to communicate with them at every stage – honestly sharing our position to help them understand the tough decisions we were making. They have been fantastic – united as one team to deliver for our customers.

Our own teams helped develop our new Values and Ways of Working. With integrity at our core we also have a Code of Conduct, which allows us to deliver the values of our new unifying brand – the Sunny Heart which our employees have embraced so positively as a real symbol that Thomas Cook is changing and is different.

We are actively recognising and celebrating individual contributions and through our Transformer programme involving some of our many talented individuals in spreading the messages of transformation. Communication is vital to a successful Transformation and we work hard to convey the messages of our progress across the organisation through many different mediums, including our intranet which will enable real social collaboration and the sharing of best practice Group-wide.

In summary, so many highlights but still much more to do.

#### Q: Are you where you thought you would be at this stage?

**A** Although overall we are ahead of where we thought we would be at this stage, the implementation of our strategy for sustainable profitable growth has only just begun. We have much still to do, but I believe the infrastructure, foundations and culture we are building now are preparing us well to deliver our ambitious plans.

No one at Thomas Cook is complacent and, whilst our first 365 days have delivered strong results in many areas, we are focused on continuous improvement and the long-term success of the Group. With the systemised approach to business, products, people and processes we are developing, I know we can deliver significantly more. Reflecting this, we are increasing three of our key 2015 targets: new product revenue, Wave 1 cost out and profit improvement and cash conversion. In addition, we have importantly announced our Wave 2 cost out and profit improvement programme, which is targeted to deliver improvement of the same magnitude of Wave 1 by 2018.

Listening to our customers and better understanding their needs is central as we continue to develop our products, systems and services. We are striving for differentiated products to give our customers the widest and most flexible range of destinations, best able to meet their needs – all underpinned by the Thomas Cook assurance of safety and quality to give peace of mind that our customers can trust. Our holiday experiences need to be as individual as the people who book them – we want to be there for our customers however, whenever and wherever they need us. Our new SunConnect concept has been well received as just one example of new product that offers customers and particularly families a fully connected holiday experience.

We have some exciting innovations in the pipeline to drive our online customer experience – through enhanced web improved search functionality and leading edge apps. We have committed 50% of our Group-wide sales will be transacted via the web by 2015, although in some parts of the business we have already exceeded this target. We have much to deliver in this area which continues to be an area of strategic

investment as we bring in digital talent to support our progress. Our Digital Advisory Board, comprising external experts in their field, helps to ensure we keep abreast of the latest developments in all sectors, continue to help drive the pace of change in this area.

The first 365 days of our journey are behind us and we are focused on new deliverables, exacting targets and operationalising the Thomas Cook Business System to deliver even greater benefits to our business, the industry and all of our stakeholders. Every person in the business has clear objectives and performance measures as we each take our part in driving the Transformation of Thomas Cook and delivering on our commitments. I think my current frame of mind can best be described as positively dissatisfied and looking forward to the next 365 days.

#### Q: What is the significance of Sunny Heart?

**A** A huge part of our journey is centred around our employees and using their passion for our customers to make a difference to each and every personal journey.

Ours is the oldest, and arguably the best loved name in leisure travel. With 172 years of proud tradition behind us, we are a brand that customers trust. We must be worthy and deserving of that trust.

When I arrived, the Group was quite siloed in its thinking and approach. Customers were confused and not always clear which parts of their journey were being delivered by Thomas Cook. Best practice wasn't being shared widely and there was duplicated activity and cost. Customers were missing out. Radically reducing our 85 brand labels was a clear priority – eliminating cost and confusion. We have now simplified these 85 labels to just 30, unifying our brands under one common symbol – our new Sunny Heart. Simplifying the customer experience the Sunny Heart highlights the combined strengths of the Group in the minds of our customers, and will become synonymous with personalised and trusted holiday experiences and our high tech, high touch delivery. Our brand is underpinned by the Thomas Cook Quality Assurance, our international scale and market leading purchasing power – all vital if we are to deliver for our customers again and again.

An expensive brand roll-out would have been inappropriate for where we are on our Transformation journey. Instead we will rebrand as we replace. Our employees are fully engaged in the change, and we wanted them to embrace the heart and start to live the difference internally first. With our employees engaged, we believe that all those who come into contact with us will sense the difference and know that they are dealing with a new, re-energised Thomas Cook.

Our new brand continues to engage and inspire our teams and almost daily I am sent photographs like these of people right across the Group embracing the heart. For many this has been the most visible sign of our Transformation and they're embracing the change with renewed commitment and vigour.

Image removed

Image removed

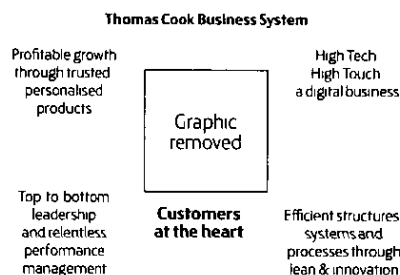
Graphic removed

## Q: What's next for Thomas Cook?

**A** Our journey to build long term sustainable value at Thomas Cook continues, with profitable growth at the heart of all we do. Sustaining our Transformation and delivering for our customers and shareholders again and again will only be achieved if we have the best people, best products, best systems and best processes, all underpinned by the very best practices from all industries – not just our own. We are focused on over delivering and we've increased three of our FY15 key performance targets already, reflecting better progress than originally anticipated in the areas of new product revenue, Wave 1 cost out and our cash conversion.

With customer need firmly back at the heart of everything we do, we will be aiming to further professionalise the "high tech, high touch" delivery of our trusted, personalised products, supported by a lean and innovative operating system, specifically designed for our needs.

To support this, we have created a disciplined operating model called **"The Thomas Cook Business System"**.



The process of embedding this methodology into the organisation has begun and is already helping to drive a culture of continuous improvement across the Group. This approach will be key as we shape the future of the Group and drive the second year of our Transformation.

We will continue to strengthen the leadership team with global executives who have a track record for delivering results, and under my leadership the newly formed ExCo will be driving greater alignment in all parts of the strategy, creating real opportunity to reduce cost and duplication and deliver greater synergy as we strive to work more effectively.

As already shared, during the development of our strategy for profitable growth we undertook one of the largest traveller surveys of recent years. We have learned through the survey the importance of customer attitude in determining holiday preferences and our tailoring our product portfolio to ensure that we meet individual customer needs. Specifically, we have segmented our product portfolio into four areas: concept hotels, partnership hotels, hotels from our brochures and flexible hotels available online, including hotels4u.com that has recently broadened its offer to appeal not just to business but also to retail customers. Developing these plans for the future are high on our list of 'what's next' – with opportunity to increase the number of visitors to all product categories.

In FY13 over 500,000 customers enjoyed our 93 exclusive concept hotels, which are operated under our own brands, Sentido, Sunwing, Sunprime and Smartline. These hotels provide our customers with a consistent experience based on a defined list of features that meet their needs wherever they go on holiday. These are further categorised according to whether their customer focus is adult, couple or family orientated.

Our other exclusive hotels are partnership hotels. In FY13 over 800,000 customers enjoyed these hotels, which are owned by world leading hoteliers, with whom we have close relationships and who have strong reputations for providing consistently high quality service, in keeping with our commitment to assurance.

Our third segment consists of hotels from our brochures, providing customers with a quality range of accommodation and style, as well as more choice across a wide range of destinations. In FY13 8.8 million customers enjoyed staying at these hotels.

Finally, we also offer a significant range of flexible hotels that are available online on a real time basis via the web to allow the greatest level of flexibility. Supported by encouraging trials we see potential to attract new customers who like to book online and typically later than many others.

## Transformation the first 365 days

### Group Chief Executive Officer's Q&A continued

Our strategy is focused on continuing to shift more of the total investment spend into those hotels where we have the highest returns. These are areas of strong strategic investment for the future and we expect to increase our offering of exclusive partnership and concept hotels to 800 by FY17, with over 3.5 million guests.

Our product growth ambitions also include a relentless pursuit to innovate more products, such as our new "SunConnect" concept, developed as a direct response to customer feedback through our extensive traveller survey. Initial response has been good.

We are continuing to diversify beyond our traditional Sun and Beach Products, developing our portfolio of city hotels across our Group. We have already doubled our inventory in Central Europe and plan to more than double the number of city hotels we offer by FY15.

We are also significantly expanding our Winter Sun offering, with 25% of our planned growth coming from the addition of new destinations and the expansion of existing destinations. We have recently added seven new destinations to our offer including St Lucia, Barbados and Antigua and plan further additions in time for next winter.

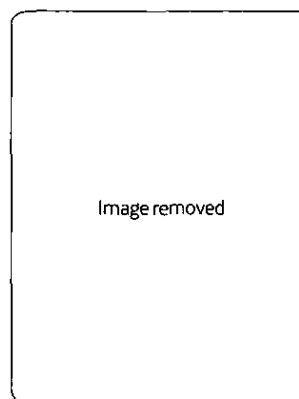
We have increased our target for new product revenues, following a good performance in the year. Our target now is to achieve new product revenue of £700 million by FY15 and by FY17, we expected to have increased incremental product revenue growth further to more than £1.2 billion.

To underpin all our products right across the Group and continue to deliver on the trust that our customers place with us when they book a holiday, we are rolling out an extensive and thorough assurance programme. This involves a continuous audit of key quality measures including health and safety, customer service and overall quality excellence. This work includes extensive customer surveys that will allow us to determine what really matters to customers which we can then reinvest into our ongoing product development. Our survey told us this matters to consumers.

As we build an omni-channel approach that ensures customers can interact with us however they want, we will continue to develop our digital footprint. We have invested significant resource and time in improving our web presence and this will continue as we move all markets away from the multiple platforms of the past onto one web platform. This will improve search capability and consistency, allowing us to better sort and organise our products to better meet customer requirements, as we maximise the product range we can offer to every customer in every market. We expect that web penetration will accelerate once all our businesses are on one platform, reaching over 50% by 2015. We're driving innovation and have many exciting new information and products in development to answer customer questions quickly and effectively. Through our new "destination discovery" system, in partnership with TripAdvisor, we can help customers narrow the range of choices and then to transfer their own shortlist of selections to their personal devices through our new "Dream Capture" to allow them to peruse and make their final selection in their own homes with their travelling companions. We are looking to add digital value to every part of the customer journey and many more innovations will follow as we look to a digital future, where every leader in our senior team has web targets embedded in their performance criteria.

In line with our new operating methodology, "The Thomas Cook Business System", we plan to deliver further benefits from enhanced margin management, more efficient use of shared services and a leaner organisational design. These will be delivered under a Wave 2 cost out and profit improvement programme, which will be in addition to the Wave 1 work already underway to deliver £440 million of cost out by FY15.

Our new Wave 2 cost out and profit improvement initiatives will drive benefits in gross margin as well as reduce costs through lower overheads. Gross margin benefits are expected to arise from further yield management and working more closely together as a Group – whether by adopting one system, one inventory and one web across our markets, and the scale benefits that come from using our



combined purchasing power to procure accommodation on a centralised basis, reducing expense further by growing online sales of our own branded products.

As customers increasingly purchase through our online channels, we will have the chance to further centralise activity, reducing cost, improving service and consistency, through more lean organisational structures and reduced "back-room" expenses.

We believe the total Wave 2 benefits will be of a similar magnitude to those identified through Wave 1 and will be achieved by FY18. Over the next six months, we will continue to develop the plan as we refine and develop our plans.

All of these plans will only be possible by employing the right people and so we will continue to focus on attracting, developing and retaining the very best people – people who are as excited as we are by the Thomas Cook Transformation journey, as we continue to professionalise our business and profitably grow for the benefit of all of our stakeholders.

The momentum we have created in the first 365 days will continue now into year two with even greater focus and commitment from the team at Thomas Cook.

This is an exciting journey as we build for the future.

**Harriet Green**  
Group Chief Executive Officer  
27 November 2013



Graphic  
removed

Trusted

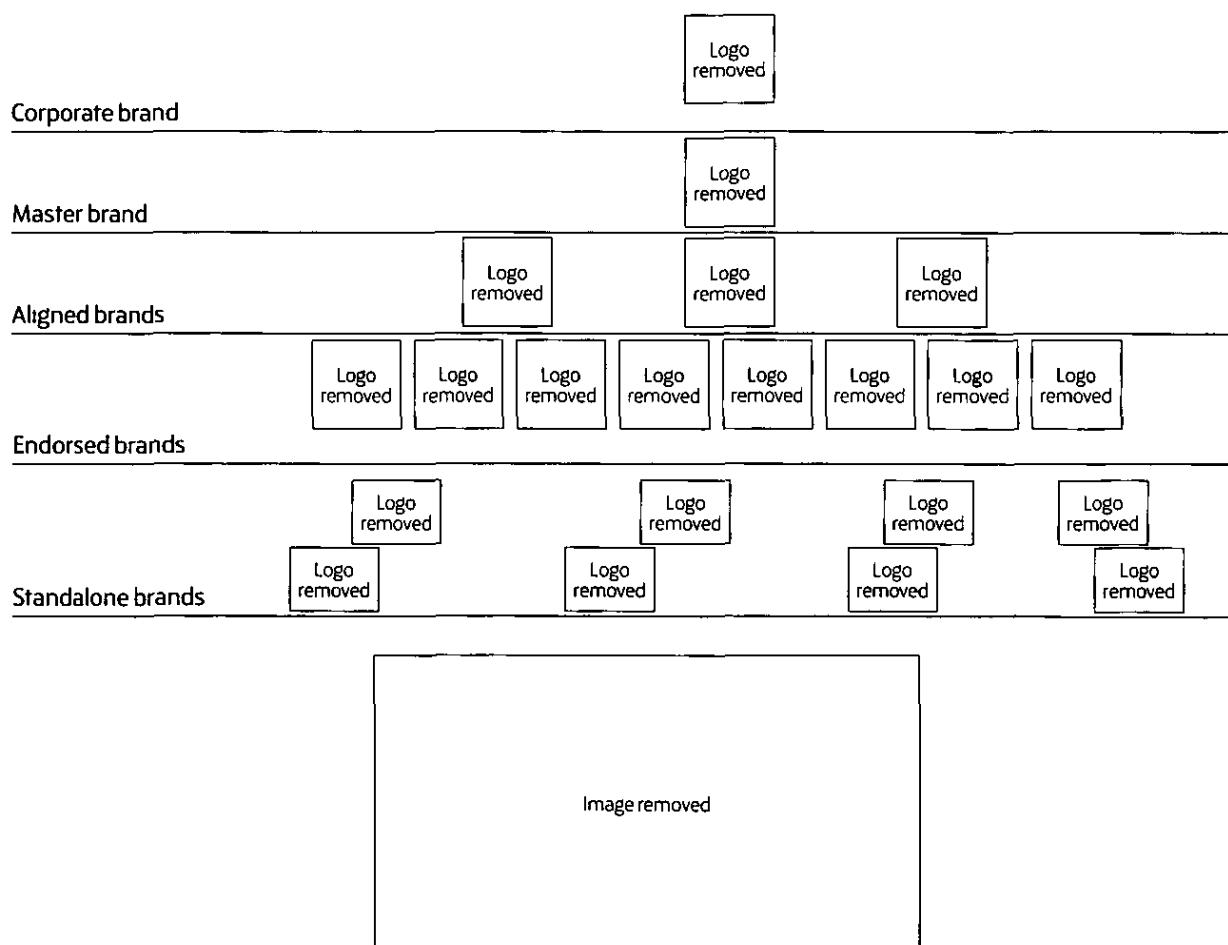
# Brand unification

On 1 October 2013, the Company announced the unification of its brands and market activity under one common symbol the Sunny Heart

Simplifying the brand proposition is a key element in the Group's profitable growth strategy, building on the Group's already strong and trusted brand heritage and projecting its Transformation into a single business

The Group's many leading brands, such as Neckermann in Europe, Ving in Sweden and Condor in Germany will all connect with the Sunny Heart in different ways. This is a major milestone in the Transformation of the Group, as it continues to develop its product offering and focus on an omni-channel approach

## Brand architecture

Let's  
go!

**Transformation** the first 365 days

## Market overview

# A growing industry

We operate in a growing industry. In 2012, for the first time, the number of international tourist arrivals (overnight visits made by international tourists) exceeded 1 billion in a single year. This represents an increase of 3.8% compared to 2011. Almost half of those travellers were travelling within, or out of, Europe – home to all of our operating source markets – and the UN World Tourism Organisation estimates that the European outbound travel market will continue to grow at an average of 2.5% per year until 2030. Although the travel market has in the past been subject to exceptional external shocks, such as geopolitical events including recent political and civil unrest in MENA destinations such as Egypt, it has nevertheless grown (by volume) in 16 out of the last 18 years.

**Economic environment**

The global economic recovery is projected to remain subdued in 2013 at 2.9% slightly lower than in 2012. Our three largest markets the UK, Germany and Sweden, are expected to achieve GDP growth of 1.4%, 0.5% and 0.9% respectively in 2013, reflecting the fact that global growth remains mainly driven by emerging economies, which expect real GDP growth of 4.5% in 2013 compared to advanced economies at just 1.2%.

The outlook for 2014 is slightly improved with real GDP growth worldwide projected at 3.6%, while the European Union, which has barely grown in 2013, is expected to return to positive growth of 1.3%. (Source: IMF)

Unemployment rates in the UK at 7.7%, Germany at 5.6% and Sweden at 8.0% are well below the Eurozone average at 12.3%.

Despite a backdrop of subdued economic growth, demand for international leisure travel has remained reasonably strong as consumer spending has held up and unemployment in our key source markets has remained stable.

**Regulatory and political environment**

Under the framework of regulations and standards in each of our source markets, we offer our customers the assurance of financial protection including the reimbursement of travel costs in the event of insolvency or bankruptcy of a tour operator. Under the European Package Travel Directive, we are subject to various disclosure and liability obligations that apply to the marketers of travel packages. In July 2013, the EC published a proposal for a revision of this Directive, which both enhances consumer protection rights and creates a more level playing field among operators. This Directive is now under consultation in each member state. Specifically in the UK, the Government is currently consulting with the travel industry around possible changes to the ATOL consumer protection regime. We continue to engage with all key European institutions to seek the best outcome for consumers and for the industry.

The airline industry is heavily regulated principally for safety reasons. It has also been subject to an increasing level of taxation and protection of consumer rights. Significantly the UK now imposes an air passenger duty upon travellers from UK airports ranging from £13 for customers travelling to Europe to £94 for customers travelling to Australia in economy class, subject to an annual inflationary re-rating. Germany and Northern Europe, on the other hand, have significantly lower passenger duties. European airlines, including our

own, have also now become subject to air passenger rights legislation whereby airlines may be required to pay compensation to passengers whose flights are delayed more than three hours. Since its introduction, this legislation has cost the Group £19 million in compensation payments. We are actively engaged in lobbying governments in the interests both of our industry and our customers, and reminding them of the importance of travel and tourism as a source of employment and driver of growth.

Our holiday programmes are also influenced by national and political events, and the responses of governments to them. Political and civil unrest in MENA destinations impacted our operations most significantly in 2011/12, but it has continued this year most notably in summer 2013, when several European national governments advised ceasing all but essential travel to Egypt. We follow such governmental travel advice closely, and are able to shift our flying programme and bed capacity to alternative destinations at short notice in order to continue to meet our customers' expectations.

## Business overview

# How is value created?

**Q How does Thomas Cook create value through its business model?**

- A**
- We offer our customers an integrated end-to-end travel experience underpinned by the strength of the Thomas Cook brands
  - We help make sense of the overwhelming choice of travel products available to customers
  - We differentiate ourselves from competitors by offering high levels of service throughout the customer journey
  - We offer the assurance of a quality controlled product portfolio and financial security

Diagram removed

**Business model**

We are one of the world's leading leisure travel companies, with operations in 17 source markets across Europe. Our core business model is that of a tour operator, sourcing holiday components such as air travel and accommodation either by creating them ourselves or procuring them from third parties, and selling them either on a packaged or on a component-only basis to consumers via both online and offline channels. We enjoy a number one or number two position (measured by revenues) among traditional package tour operators in our most significant source markets, being the UK, Germany and Northern Europe.

Our tour operator business is supported by our in-house airlines. Our airlines provide services to the Group and to third parties including individuals and other tour operators. Our airlines contribute approximately 17% of the Group's gross revenue.

Our tour operating model has some local adaptations within each of our markets, depending on the degree of vertical integration among our airlines, tour operators and distribution channels. In the UK, Northern Europe and Belgium, our business model is that of a vertically integrated tour operator, based largely on the use of our own airlines, and controlled distribution of product through our retail outlets, websites and call centres. In Germany, however, a significant proportion of air capacity requirements are sourced from our German airline Condor, and the majority of travel products and services are distributed through third-party travel agents. In source markets where we do not operate our own airline, all our air capacity requirements are sourced from third parties, and there is generally a lower level of controlled distribution than in vertically integrated markets.

We offer a wide range of holiday options including traditional pre-packaged holidays, independent travel products (including dynamically-packaged holidays and individual holiday components), seat-only flights and a selection of travel-related financial and other ancillary services.

1  
Strategic report

2  
Directors' report

3  
Financial statements

*Let's go!*

## Transformation the first 365 days

### Business overview continued

Traditional pre-packaged holidays are where two or more components of travel such as charter flights (often using the Group's own airlines), hotels and transfers are bundled together and offered for sale as a single product. We sell our traditional pre-packaged holidays directly to customers through our own retail outlets, websites and call-centres, as well as on a business-to-business basis to third party travel agents.

The independent travel products we offer encompass dynamically-packaged holidays (where customers can tailor their holiday by bundling together individual holiday components to meet their personal requirements with regard to destination, duration, variety, quality and price), individual holiday components and scheduled tours. We typically aggregate the various components from a wide range of third-party suppliers and sell this aggregated product either directly to customers or to third party travel agents on a business-to-business basis. We either charge a mark-up or are paid a commission by a third-party supplier based on the booking price paid by the customer.

In addition, we provide travel related financial services including foreign currency and pre-paid foreign currency cards, travel insurance and travel finance (products that allow customers to finance their travel), and certain ancillary travel services such as processing of passenger baggage at airports.

### Key industry trends

In recent years a number of key trends have led to significant changes in the leisure travel market. These key trends include the following:

#### Online growth

The growth of the internet has increased price transparency and choice, leading to a significant increase in the availability of travel products and services online both through direct suppliers and travel intermediaries, and to a proliferation of information and reviews about travel experiences and destinations.

Graphic removed

#### Low cost air travel

Availability and choice of airline routes has also expanded as the rise of the low cost carriers has led to a significant increase in the online distribution of seats to a wide range of destinations at competitive prices.

Graphic removed

These changes have made it easier for customers to research and build their own travel experiences, leading to strong growth particularly in the independent travel sector (including dynamic packages and individual holiday components) and in online distribution.

In order to generate deeper insights into our market, in November 2012 we commissioned one of the largest surveys conducted in our industry in recent years. We questioned over 18,000 consumers (including both Thomas Cook customers and non customers) across our key source markets of the UK, Germany and Sweden in order to establish clear facts about our marketplace. Those surveyed were asked to respond to a set of questions regarding their travel habits and preferences, in order to understand why they shop with a particular travel brand, and to learn what travellers want and how they feel when they book and experience their holidays. From this survey we learned four key insights:

- Trust, consistency and an assured experience underpinned by a strong brand are the most important drivers of customer choice.
- Half of travellers feel overwhelmed by the amount of information and choice when booking, and two thirds of travellers want help in choosing the right product for them.
- 93% of travellers either search for content online or express a preference for booking online if possible, and
- 70% of travellers want a relationship with their holiday provider that goes beyond just booking and paying for a trip, and includes supporting them both before and during their travels.

We believe that these insights lay the foundations for a successful business model, and represent a clear competitive advantage over other business models in travel distribution. Through our trusted travel brands and multiple customer touchpoints, we are able to offer customers personalised help and advice when making their holiday arrangements, and support them before departure, during their holiday whilst in destination, and if necessary after their holiday once they return home. We are able to offer a quality assured product portfolio, and enjoy deep and long lasting relationships with many of our hotel suppliers. We believe that being able to engage with a trusted travel partner who can provide a competitively priced product, strong customer service and the assurance of quality control and financial security is increasingly important to consumers.

70% of travellers want a relationship with their holiday provider that goes beyond just booking and paying for a trip

## Our value proposition

We create value by offering a wide range of travel products and services to suit all customer needs, reaching our customers seamlessly through omni-channel distribution. Our value proposition is underpinned by the strength of our brand and our high tech, high touch approach, enabling customers to search for and book their travel arrangements through the channel of their choice, while providing a quality assured travel experience backed up by strong customer service. The key aspects of our value proposition are as follows:

### 1 Brand strength

Thomas Cook is one of the leading brands in the leisure travel market. Building on a 172-year history in the travel business, the Thomas Cook brand serves as a strong master brand for the Group and is complemented by a range of well-known regional brands, including Neckermann, Condor, Jet tours, Ving, Spies and Tjareborg, which are joined by our new unifying mark, the Sunny Heart. As part of rolling out the Sunny Heart we have taken the opportunity to concentrate our brand investment, reducing the number of brand labels from 85 to just 30. Our strong brand recognition in the travel market provides us with a solid platform to develop particularly our online distribution channel, and is a key driver of consumer interest in our products and services, visits to our stores and websites and, ultimately, revenues.

### 2 Product breadth

We offer a wide product range and choice of destinations enabling us to meet customer demands and preferences while mitigating the effect of factors which may negatively affect demand for travel to certain regions, such as the political and civil instability in certain MENA destinations. We have a history of successful product development and launch, including developing exclusive and differentiated products such as the Sunwing, Sunprime, Smartline and Sentido concept hotels, which aim to deliver a consistent, high quality, branded hotel experience to our customers, as well as partnership hotels which also offer a high quality and exclusive hotel experience under local brands. We intend to broaden our product offering further by expanding our successful concept and partnership hotel programmes, and by developing new, flexible products and services, closely tied to customer demands and preferences. We also intend to introduce or expand our product offerings to limit the impact of seasonality, for example, through the proposed expansion of our winter sun and city break offerings.

### 3 Distribution reach

We benefit from an omni-channel distribution system for our products, which include retail stores, websites and call centres, as well as third party travel agents. Access to such a wide variety of distribution channels enables us to maximise customer reach and provides choice to our customers. We aim to build on this strength through the development of a single customer gateway which will enable the delivery of a consistent, personalised customer experience with access to a full range of products, services and personal recommendations across all distribution channels. In support of this objective, a key priority of the Group is to become the leading online tour operator, with an online platform that hosts a broad range of products and services.

### 4 Service and quality

Our customer service representatives are present at many customer touch points, including in stores, on our aircraft and in destination, providing reassurance and ensuring a high-quality travel experience. We have a health and safety assurance process for our products. Our product inventory is quality assured, taking into account reviews and recommendations of our own customers and third-party reviewers. For our high volume destinations and accommodation, we carry out our own professional checks to ensure our product is fully quality controlled.

1  
Strategic report2  
Directors' report3  
Financial statements

## Transformation the first 365 days

## Review of strategy

# The first 365 days of Transformation delivered – this is just the start

In the first 365 days of the Transformation of Thomas Cook, we have effected a rigorous and rapid turnaround of the business and set out a robust strategy of sustainable profitable growth

The fact that the business has responded so quickly and positively to the decisive actions taken during the year is a testament to the fundamental strengths of our iconic brand and the value that our customers, who total more than 20 million, place in Thomas Cook to provide them with what they want – trusted and personalised products, delivered both online and offline in a co-ordinated high tech, high touch way

The extent of progress made, that has exceeded our original expectations of what could be achieved by the end of this financial year is encouraging for the future. This has led us to increase three of our key targets for the year ended 30 September 2015 ("FY15"). Firstly, we are raising our incremental new product revenue target from more than £500 million to greater than £700 million

Secondly, we are raising our Cost Out and Profit Improvement programme ("Wave 1") target from more than £400 million to greater than £440 million. Thirdly, we are raising our cash conversion target from more than 60% to greater than 70%. In addition, we have announced a further cost out and profit improvement programme ("Wave 2") to be delivered by FY18, which will be of the same magnitude as Wave 1

Based on these and our other targets, we believe that the Group has potential to deliver significant value for our shareholders over the short, medium and long term. To realise this value, we have set out a clear strategy for sustainable profitable growth. This will not only deliver these specific and measurable targets and key performance indicators ("KPIs") in FY15, but also sustained profitable growth beyond it.

## Targets and KPIs

Graphic removed

		FY12	FY13	FY14	FY15
Targets	New product revenue	N/A	£94m	> £300m	> £700m
	Web penetration <sup>1</sup>	34%	36%	> 40%	> 50%
	Cost out/profit improvement (cumulative run-rate)	£60m	£194m	> £340m	> £440m
KPIs	Sales CAGR <sup>2</sup>	N/A	N/A	> 2.5%	> 3.5%
	Underlying gross margin improvement <sup>3</sup>	N/A	0.8%	> 1.2%	> 1.5%
	UK underlying EBIT margin	0.1%	2.2%	> 3.5%	> 5%
	Cash conversion <sup>4</sup>	11%	48%	> 55%	> 70%

## Notes

1 Measured on a last 12 months departed basis

2 Compound annual growth rate from FY13 to FY15 including new product revenue

3 Underlying gross margins adjusted for disposals and shop closures on a like for like basis

4 Cash conversion defined as net cash from operating activities less interest paid as a percentage of underlying EBITDA

## The Thomas Cook progress report

The progress report of the year demonstrates the enormity of what has been achieved. It also gives us an insight into what Thomas Cook is capable of and, with continued relentless business focus, what it could achieve in the future.

### 2013 Thomas Cook progress report – a major turnaround

Graphic removed

1  
Strategic report

2  
Directors' report

3  
Financial statements

#### Year ended 30 September 2012

##### Operating loss

> EBIT £(170)m

##### Revenue down

> Revenue £9,195m

##### Operating margin down

> Underlying EBIT margin 1.9%

##### Negative free cash flow

> Free cash flow £(103)m

##### Balance sheet refinancing required

> Bank facilities maturing 2015

##### Net debt

> £788m

##### Disposals made to raise cash

> Hotels Y Clubs De Vacaciones sold  
> Thomas Cook India sold  
> Aircraft sale and leaseback

##### Cost Out Programme (Wave 1)

> £60m of cumulative benefits realised  
> Total cumulative target £240m by FY15

##### UK operating margin down

> UK underlying EBIT margin 0.1%

##### No other Cost Out Programme

##### Complex brand portfolio

> 85 brand labels

##### Customers booking online

> 34% of total bookings online

##### New products

> 66 Concept Hotels

\*Subsequent to year end

#### Year ended 30 September 2013

##### Operating profit

> EBIT £13m

##### Revenue up

> Revenue £9,315m, up £120m from £9,195m in FY12, a rise of 1.3%

##### Operating margin up

> Underlying EBIT margin 2.8%, up from 1.9% in FY12, a rise of 90 basis points

##### Positive free cash flow

> Free cash flow £53m, up £156m from £(103)m in FY12

##### Balance sheet strengthened

> £1.6bn capital refinancing  
> Maturities extended

##### Net debt almost halved

> £421m

##### More disposals made – on track to deliver target of between £100m to £150m in gross proceeds by FY15

> North American business sold  
> Thomas Cook Personal Finance (50% share) sold  
> Three London Foreign Exchange Bureaux sold  
> Egypt and Lebanon business sold\*  
> 91.5% of our interest in The Airline Group sold\*  
> Corporate Foreign Exchange Business sold\*  
> Thomas Cook Tours outsourced\*  
> Neilson sold\*

##### Cost Out & Profit Improvement Programme (Wave 1)

##### Benefits Up and FY15 Targets Increased

> £194m of cumulative benefits realised  
> Total cumulative target increased to £440m by FY15

##### UK operating margin up

> UK underlying EBIT margin 2.2%, up from 0.1% in FY12, a rise of 210 basis points

##### New Cost Out Programme announced (Wave 2)

> Benefits of a similar scale to Wave 1 realised by FY18

##### Simplified brand portfolio

> 30 brand labels

##### More customers booking online

> 36% of total bookings online

##### New product growth

> 93 Concept Hotels

Let's  
go!

## Transformation the first 365 days

### Review of strategy continued

## The considerable progress made transforming the Company in the first half of the year enabled us to undertake a £1.6 billion capital refinancing

In the year ended 30 September 2013, we successfully reversed the negative trends of the past. We delivered a positive operating profit for the first time since FY10, putting Thomas Cook back on a firm trajectory of profitable growth. We delivered encouraging profitable growth with increased revenue, due to pricing and yield improvements as well as the effect of foreign exchange offsetting a managed reduction in committed capacity. Operating margin was up too, a strong signal that Thomas Cook can convert its significant revenues of over £9 billion into profit.

One of the most encouraging signs as we continue to repay debt and set out a strategy to enable dividend payments in the future is the positive free cash flow generated during the year, a significant reversal from the negative free cash flow position of the previous year. Reflecting improvements in working capital and the progress that we are making, we have increased our FY15 cash conversion target to 70% from our initial target of 60%.

The considerable progress made transforming the Company in the first half of the year enabled us to undertake a £1.6 billion capital refinancing. Successfully completed in June we raised £431 million in new equity, a new banking facility of £500 million that matures in 2017 with a second £191 million tranche available from 2015 and a new bond of Euros 525 million that matures in 2020. This refinancing was one of the most

significant achievements of the year. Not only did it represent a major step on our journey to reach an optimal capital structure by reducing net debt and extending maturities, it crucially allowed us to continue with our rapid and successful Transformation of the Group.

As part of the Transformation, we undertook an extensive review of our portfolio of assets. This resulted in a number of disposals that have improved our business mix and enabled more focus on those core assets that will deliver sustained profitable growth.

In May we completed the sale of our North American business which reported an underlying operating loss in FY12 of £41.1 million, for cash proceeds of £3.4 million. At the end of May, we disposed of our 50% share in Thomas Cook Personal Finance and three standalone foreign exchange bureaux in London. Since the end of the financial year, we have made further progress. On 4 October we disposed of our business in Egypt and Lebanon which reported an underlying operating profit of £1.1 million in FY13, for cash proceeds of £6.5 million. On 18 November we announced the sale of our Corporate Foreign Exchange business for cash proceeds of £4.5 million and an outsourcing agreement in respect of our escorted tours business, Thomas Cook Tours, for a minimum period of five years. On 19 November we announced the disposal of 91.5% of our shareholding and loan note interests in The Airline Group Limited, a 41.9% shareholder in NATS Holdings Limited, for a cash consideration of approximately £38 million. Finally on 25 November we announced the sale of Neilson for a cash consideration of £9.2 million.

This equates, once The Airline Group transaction completes, to a total of £61 million of gross proceeds from disposals, putting us on track to achieve our target of between £100 million and £150 million by FY15.

We are also making progress transforming our underperforming businesses. In France, we have moved closer to our target of breakeven by FY15, reducing its loss by Euros 5.3 million to Euros 18.7 million (FY12: Euros 24 million). Having successfully concluded our discussions with the Workers Council, we are now implementing the restructuring in line with our planned timescale. In addition we have stabilised our Russian business, reporting a loss of Euros 10.5 million (FY12: Euros 11 million) and expect to see significant

improvements in FY14 as our restructuring measures take effect.

The development of our new "One Airline" structure is also on track. This brings together the four airlines and enables the realisation of scale benefits and efficiency improvements. In the meantime, we have continued to invest in the refurbishment and renewal of our airlines, having invested £78 million in maintaining, refurbishing and renewing our aircraft in FY13.

One of the main reasons for Thomas Cook's previous year losses was that it had too much cost due to the businesses operating in silos. From the commencement of our Cost Out and Profit Improvement Programme to 30 September 2013 we have made significant progress successfully integrating the businesses and have removed £194 million of cost. This result is considerably higher than the £145 million that we had originally expected to have achieved by the end of September 2013, reflecting an acceleration of the savings.

One of the key contributors to the cost out programme has been the UK. We announced in March our plan to reduce our payroll by approximately 2,500 to a target of about 13,000 full time employees.

We also said that we would reduce the number of retail stores. As at 30 September 2013, we had reduced our network by 21% from 1,101 stores at the beginning of the programme to 874 and increased the percentage of business booked online to 36% (FY12: 34%). A recent report by retail property consultants, CWM, confirmed that our store network is highly flexible, with well over half available for renegotiation over the next three years.

As a result of this ongoing turnaround of the business, the UK underlying EBIT margin improved by 210 basis points from 0.1% in FY12 to 2.2% in FY13.

We have also identified more cost savings as we have dug deeper into the business. Some of these have been due to the identification of new initiatives. Some have been due to an internally imposed risk weighted process, which discounts potential savings for execution risk, proving to be overly prudent. In these instances, as the risk weighted project moved closer to realisation, it became clear that more savings would materialise, necessitating an adjustment to



the risk weighting which in turn resulted in the release of additional benefits. This has resulted in the total cumulative target for FY15 moving from £240 million at the beginning of this financial year to £440 million at the end of it, an increase of £200 million.

Building sustainable value at Thomas Cook is crucial. We aim to deliver profitable growth not just to FY15 but also over the long term. Sustaining success is about ensuring that we have the best people, best products and best processes, underpinned by the very best practices from all industries, not just our own.

With our customer at the heart of everything we do, we aim to bring further professionalism to the high tech, high touch delivery of trusted, personalised products to all our customers. This will be supported by a lean and innovative operating system that is designed specifically to serve their needs.

This is encapsulated by our disciplined operating model called "The Thomas Cook Business System". Consistent with these values, we plan to deliver further benefits from enhanced margin management, more efficient use of shared services and a leaner organisational design. These will be delivered under a Wave 2 Cost Out and Profit Improvement Programme, which will be in addition to Wave 1.

Our new Wave 2 Cost Out and Profit Improvement initiatives will drive benefits in gross margin as well as in cost out through reduced overheads. Gross margin benefits are expected to arise from further yield management from adopting one system, one inventory and one web across our markets, scale benefits from purchasing accommodation on a centralised basis and reduced commission expense from growing online sales of our own branded products.

Cost out benefits are expected to arise from the migration of customers to online channels with lower associated distribution costs, the creation of shared service centres to support the businesses more efficiently and the adoption of more lean organisational structures within the Group as a whole.

We estimate that the total Wave 2 benefits will be of a similar scale to Wave 1 and will be achieved by FY18. While it is early stages in the implementation of the plan, we do expect that Wave 2 will have a higher investment cost to achieve the benefits than Wave 1.

This investment cost is estimated to be approximately one third of the annual benefit.

Over the next six months, we will continue to develop the plan, applying the risk-weighting methodology we use for Wave 1 and expect to include further details with our first half results announcement.

While cost out and profit improvement are clearly major value drivers and provide Thomas Cook with the advantage of a highly competitive, lean and innovative operating platform, it will not, taken in isolation, drive profitable growth on a sustained basis up to and beyond FY15.

This will, however, be delivered by the successful implementation of our strategy for sustainable profitable growth.

## Delivering our strategy for profitable growth

The central driver of our corporate strategy is our customer.

Our traveller survey was highly informative. It told us that trust, consistency and a strong brand are the most important drivers of customer choice. It also told us that 50% of travellers feel overwhelmed by the amount of choice when booking and 66% of travellers want help in choosing the right product for them.

In addition, as we might have expected, 93% of travellers either search for content online or express a preference for booking online if possible. However, it also told us that 70% of travellers want a relationship with their holiday provider that goes beyond just booking and paying for a trip.

With trust in our brand being highlighted as one of our most powerful competitive advantages, the value of our extensive and thorough quality assurance programme to customers became even clearer. This involves a continuous audit of key quality measures including health and safety, customer service and overall quality excellence. The health and safety programme measures standards, audits hotels and includes a clear escalation and decision process. The customer service includes structured and regular feedback that is continually embedded in our hotel contracting process. Finally, quality excellence includes extensive surveys that allow us to determine what really matters to customers which we can then reinvest

into hotel assessment and our ongoing product development.

Quality assurance is also a key differentiator as we increasingly become a digital business. Central to our high tech, high touch approach is online delivery combined with protection, quality assured products and personalised support, all of which we know from our extensive traveller survey is what customers want. Consciously offering a differentiated model from the way the online industry has evolved, we believe that our high tech, high touch offer is more relevant to travellers' needs today, bringing us closer to them and therefore better able to meet their needs in future.

With customers increasingly wishing to book their holiday online, we plan to increase the level of business transacted on the web to at least 50% by FY15. As at the end of September 2013, the number of customers booking their holidays online had risen to 36%. All markets saw increased web penetration, including Scandinavia which is over 70%. We expect this to accelerate more towards our FY15 target of over 50% in the later periods of the plan, as the significant organisational change that is currently underway to migrate our six key markets to a "OneWeb" common platform takes effect.

At the same time, we continue to enrich our online offer with leading digital innovations to improve conversion rates. In particular, "DreamCapture" is expected to have a particularly high impact. This latest innovation enables the valuable customer relationship discussion in the store to continue digitally after the customer returns home, creating a crucial link between e-tail and retail and helping ensure safe passage between the channels. We expect this to drive increased conversion rates as customers have easy access to previously viewed content and have a clear link straight to purchase.

Another innovation "RepAdvisor" allows our representatives to upload information, photos and videos on the web so that our customers can benefit from first-hand information about the resort and local area. We also continue to innovate with enhancements to content such as increased use of accommodation videos and improved room descriptions to inspire customers to book a holiday that meets their specific needs.

In recognition of our innovations, we recently won the Global Business Excellence Awards.

Let's go!

## Transformation the first 365 days

### Review of strategy continued

for Outstanding Innovation and in respect of RepAdvisor, Outstanding App, the latter being described as an outstanding example of harnessing modern technology to deliver great customer service

In light of travellers feeling overwhelmed by the amount of choice it was also clear that we needed to unify and simplify our brands. Having inherited as many as 85 brand labels, we took action to simplify these to just 30, unifying our remaining brands under one common symbol, the Sunny Heart. This allows us to focus our considerable brand power, proposition and products in the fulfilment of our specific customers' needs.

Building on Thomas Cook's existing strong brand heritage, the Sunny Heart highlights the combined strengths of the Group in the minds of our customers, symbolising personalised and trusted holidays, high tech, high touch delivery, backed by Thomas Cook Quality Assurance, international scale and market leading purchasing power.

Our strategic management of hotel product is key to our delivery of sustainable profitable growth.

Having identified from our traveller survey the importance of customer attitudes in terms of holiday preferences, our hotel portfolio is carefully segmented to ensure that we meet individual customer needs. Specifically, we have segmented our product portfolio into four areas: concept hotels, partnership hotels, hotels from our brochure and flexible hotels, including hotels4u.com that has recently broadened its offer to appeal not just to business but also to retail customers.

In FY13 over 500,000 customers enjoyed our 93 exclusive concept hotels, which are operated under our own brands, Sentido, Sunwing, Sunprime and Smartline. These hotels provide our customers with a consistent experience based on a defined list of features that meet their needs wherever they go on holiday. These are further categorised according to whether their customer focus is adult or family orientated.

Our other exclusive hotels are partnership hotels. In FY13 over 800,000 customers enjoyed these hotels, which currently total 216. Partnership hotels are owned by world leading hoteliers and strong local partners, with whom we have close relationships and who have strong reputations for providing consistently high quality service.

Our third segment consists of our traditional brochure hotels, providing customers with a quality range of accommodation and style, as well as more choice across a wide range of destinations.

Finally, we also offer a significant range of flexible hotels that are available online. Unlike the other segments which are either exclusive or involve a level of commitment to the hotelier, these hotels are offered on a real time basis via the web to allow the greatest level of flexibility. Supported by encouraging trials in our German market, we see potential to attract significantly more new customers who like to book these hotels online and typically later than our traditional customers.

Overall, our strategy is to shift from approximately 20% of hotel revenues in exclusive and flexible hotels in FY12 to approximately 40% by FY17. Together, they will account for incremental new product revenue growth of £700 million by FY15. By 2017 we expect to have increased this incremental new product growth by a further £500 million to more than £1.2 billion.

We will focus our total investment spend into exclusive hotels where we have the highest returns. Our proven concept hotels already deliver a margin premium relative to the other hotels in our portfolio of as much as 500 basis points. Our partnership hotels also deliver a margin premium, currently in excess of 150 basis points above the other hotels, and it is our aim to double this margin premium over the next three years as we continue to invest further in this area.

Our product growth ambitions also include a relentless pursuit to innovate more product. In FY13 we have developed and launched a new concept hotel type called "SunConnect" which offers value based family holidays with a focus on making life simpler through the use of technology. This product has been designed specifically in response to customer feedback from our extensive survey. We will trial an initial 10 hotels in the coming 2014 Summer season.

A key driver of our profitable growth, we plan to have 800 exclusive partnership and concept hotels open by FY17, enjoyed by over 3.5 million customers.

Another key product priority that we identified in March, when we announced our strategy for profitable growth, was the conclusion that we should be providing more

holidays to each customer by offering a broader product range.

For example, the analysis of our survey data informed us that 77% of our Sun & Beach customers who took city breaks last year booked with another provider.

With a dedicated team in place we are significantly enhancing our portfolio of city hotels across our Group and have already doubled our inventory in Central Europe. We plan to increase the number of city hotels that we can offer our customers from a current level of 7,000 to 20,000 by FY15.

### Further professionalising our Group

Consistent with our internal operating methodology, The Thomas Cook Business System, we need to ensure that we have the right people, doing the right things in the right way to deliver our strategy. As part of this, we have completed a new Executive Committee. This is an important step on our journey to further professionalise the Group, breaking down regional silos and realigning leadership responsibilities to deliver the best product in the best way to our customers.

Led by the Chief Executive Officer, who is committed to leading the sustained delivery of profitable growth, the Committee also includes the Group Chief Financial Officer, Chief Operating Officer, Group Head of Air Travel, Chief Technology Officer, Chief Digital Officer, the Group General Counsel and the Chief People Officer, all key roles as we realign our operating approach to deliver performance excellence as one fully integrated Group.

### This is just the start

An enormous amount has been achieved transforming Thomas Cook and the deliverables in the first 365 days of the Transformation are clear.

Yet the implementation of our strategy for sustained profitable growth has only just begun. With our systemised approach to business under The Thomas Cook Business System, our products, people and processes and our powerful unified brand, we are confident of delivering significantly more in the years to come.

Our people

# Building an Effective Organisation

## Background

The announcement of our new Profitable Growth Strategy, at the Capital Markets Day in March 2013, was a critical part of the Transformation. Central to this is "Building an Effective Organisation". The Thomas Cook Executive Committee are fully engaged in driving this work, recognising the significant role it has to play in delivering sustainable, longer-term business success.

We have moved at great pace to create one unified culture across the Group, now sharing a common brand and symbol in the Sunny Heart.

From the very beginning it was recognised that "Building an Effective Organisation" was a critical element of the key decisions to be made and critical to the Transformation – key streams of activity and work identified by the top 100 leaders who gathered at the first Thomas Cook Leadership Council ("TCLC") in September 2012. Recognising the significance and extent of the cultural shift required, the CEO set the tone for the leadership team, of rigour and pace to put the foundational building blocks in place in order to deliver the structural and cultural change for the Transformation.

We have moved at great pace to create one unified culture across the Group, now sharing a common brand and symbol in the Sunny Heart. Our high performance culture will become one where diverse talent is attracted, employees are developed to maximise their potential and performance and where employees are encouraged to collaborate, to share and embed best practice. The Thomas Cook Values and Leadership Behaviours are central to our People Agenda and successful execution of our Strategy and Transformation. Our Code of Conduct was rolled out effectively during the year, guides behaviour and along with our new brand brings our values to life.

Key to an effective organisation is having the right people in the right roles focused on the right priorities. Therefore, this year there has been much emphasis on strengthening our leadership capability. The optimum balance has been achieved in the top 130 leaders through keeping a third in current roles, promoting a third from

within, removing unnecessary management layers and attracting a third from outside. In the last year we have made significant investment and attracted 'world class' talent to strengthen our leadership across the Group. The recruitment of high calibre diverse talent into the organisation has significantly contributed to the raising of standards and disciplines required to deliver the Transformation and our Strategy. These changes sometimes require difficult decisions. At Thomas Cook we live by our values, ensuring that anyone impacted is treated fairly, and supported to take the next steps.

During the year, we have focused on the following aspects of "Building an Effective Organisation":

### Values, Ways of Working and Code of Conduct

In September 2012, Thomas Cook developed the Group's new Values and "Ways of Working". These fully support our new Code of Conduct, providing a solid and unified framework across the Group to guide our behaviours and how we conduct our work to the highest of standards. To ensure that this important work is fully embedded, over 90% of our employees across the Group have received comprehensive face-to-face training in interactive sessions led by line managers, with plans in place to ensure the remainder are trained in the near term. All new employees also undergo the training as part of their induction. In the past year we have seen an improvement in the overall culture of the organisation with more openness,

1  
Strategic report

2  
Directors' report

3  
Financial statements

Let's go!

## Transformation the first 365 days

### Our people continued

Input was taken from the top 130 leaders to identify and develop our leadership behaviours, which are a critical component of our new high-performance culture.

sharing of best practice and collaborative working across the Group. To ensure our improved culture remains embedded across the organisation we regularly monitor and measure how employees embrace our Code of Conduct. This includes follow up interviews conducted amongst sample groups of employees and relevant questions included in the Group-wide employee engagement survey and in performance reviews. The feedback received by employees on the introduction of the Code of Conduct has been extremely positive throughout the organisation.

#### Establishing rigour and governance

The TCLC, which comprises our top 130 leaders, meets every quarter to share progress and best practices, providing a platform to engage and inspire in our Transformation. In addition, the CEO holds frequent meetings with the senior leadership team and the Executive Committee, formed in November 2013, along with monthly one-to-ones to ensure all leaders are fully aligned in key decisions and have the support they need to deliver. Monthly Strategy Steering Group meetings chaired by the CEO are a forum for key leaders to share progress review and challenge on key Transformation initiatives. These meetings also provide the opportunity for visibility of our talent across the Group bringing to life our new culture of sharing best practice, openness and transparency.

#### Communicating and engaging with our employees

In addition to the regular forums for our leadership teams we also have a range of communication channels to engage and inform our employees. Some examples of these are CEO blogs, Transformation eNews and cascade briefings and videos. In addition to our digital communications, we have a regular programme of face-to-face interactive local events in each segment. In order to streamline our employee communication, we will be launching HeartBeat, a new Group-wide intranet from December 2013.

#### Leadership behaviours

Input was taken from the top 130 leaders to identify and develop our leadership behaviours, which are a critical component of our new high-performance culture. These behaviours will be embedded across the Group as we build a world-class talent system in order to maximise our talent performance and development. A key competency for leaders will be the ability to

collaborate and work across the Group as one team. These behaviours drive how managers' performance is measured.

#### Development and succession

As part of the Transformation there is renewed focus on development and succession. Developing and maintaining strong leadership and succession within the organisation will be significantly enhanced with the introduction of our Performance and Talent System. Succession planning principles will be designed and agreed as part of our talent strategy work and, along with segment and functional talent reviews, will be introduced next year following our first online performance review process.

#### Executive development and Emerging Talent Programme

During the year, we launched the executive development programme for 53 of our leaders. The purpose of the programme is to provide key leaders with a personal profile of strengths, targeted improvement areas and development options that will enhance job performance. During 2014, we will continue with this programme to ensure that we are identifying the correct individuals as we build our succession pipelines.

To further support our succession plans we are currently designing our first Thomas Cook Group Emerging Talent Programme. The programme will launch later this year with 20 candidates from our Airline and will provide accelerated development and growth for participants into key leadership roles.

#### Thomas Cook High Potential Model

An integral part of our Talent Strategy is to help leaders identify and develop our pipeline of talent. We have designed (with input from key business leaders and with reference to external research) a bespoke model to help identify and develop our "high potentials" across the Group. It will be used by all managers to support the identification of talent.

**Engagement survey**

In September 2013, for the very first time every employee in the Group, across 41 countries and in 15 languages, was given the opportunity to participate in "Every Voice" – the same uniform employee survey. There was a positive response rate of 73% across the Group. We are engaging with all of our employees to share the results and these will be used to identify actions at a Group, segment and functional level to drive engagement for our continued Transformation. A further Group wide survey will take place in 2014, enabling us to track our progress, compared to the baseline of the 2013 survey.

**Pay for performance**

At our Capital Markets Day in March 2013, we announced our strategic targets and KPIs for our Transformation. Since this announcement, we have reviewed our Reward Policy across our entire senior leadership team. The aim was to ensure that our pay rewards the delivery of our strategy, and enables our key leaders and talented individuals to share in the success that they are creating with our Transformation.

Details of our Remuneration Policy can be found in our Remuneration Report on pages 70 to 87

**Organisational effectiveness**

As part of the Transformation we are reviewing our organisational efficiency and effectiveness to identify relevant, clear principles and metrics. We will focus initially on reviewing the structure in our organisation and drive organisational change in line with best practice metrics. This will ensure the Thomas Cook organisation is fit for purpose and sustainable into the future, working more effectively as a team, driving out cost and ensuring that our leaders are closer to our customers.

**Diversity and inclusion**

We believe that diversity is an essential part of how we do business and meet the needs of our equally diverse customer base. We operate in 41 countries, employing people and working with customers and suppliers from a broad range of backgrounds and cultures.

Recent senior appointments have strengthened diversity across a range of measures including skills, experience, gender and nationality. We are already making progress and have had very positive feedback from employees.

We do not tolerate any form of discrimination and aim to reflect the diversity of the communities in which we operate. We are committed to treating people fairly and ensuring that our employment practices are free from any form of unlawful discrimination against any employee on the grounds of sex, gender reassignment, sexual orientation, pregnancy, race, colour, nationality, ethnic or national origin, religion or belief and age and disability.

The Group CEO has also been asked to be part of the Outstanding in Business Judging Panel.

The table below shows the gender split at different levels within the organisation, as at 30 September 2013. At Thomas Cook 70% of our workforce is female which is common in many service industries. However, as can be seen only 20% of our managers are female. We have much more to do in encouraging and supporting more gender diversity throughout Thomas Cook. Our focus next year on identifying and developing talent at all levels in the organisation will enable us to improve on the current situation. Led by the CEO, our leaders all have diversity as a focus and we will be supporting them to understand the importance of this work and improve with a new training programme to be launched next year on recruitment and selection.

	Male	Female	Total	% Male	% Female
PLC Board	5	3	8	62%	38%
Executive Committee and CEO reports	8	5	13	62%	38%
Senior Management (TCLC and subsidiaries)	205	51	256	80%	20%
TCLC	99	28	127	78%	22%
Subsidiaries	106	23	129	82%	18%
Whole company	7,827	17,938	25,765	30%	70%

We believe that diversity is an essential part of how we do business and meet the needs of our equally diverse customer base.

## Transformation the first 365 days

Our people continued

Over the last year, we have established and continue to secure the foundations of a culture and structure that will be able to execute and deliver the Transformation effectively.

### Creating and sustaining our culture – looking ahead

With the appointment of Sandra Campopiano as Chief People Officer in September 2013, we will further develop the People Agenda and Strategy necessary to deliver our Transformation and Profitable Growth Strategy

#### Recognition

Academic research proves a clear and positive correlation between recognition, engagement and performance of employees. Therefore in order to further embed our new values and culture we have launched a Group wide online recognition scheme called "From the Heart" which enables peer-to-peer instant recognition allowing people to recognise colleagues who are living the values. There are different levels of awards which employees receive as points, redeemable against a wide range of local merchandisers in each country and online. The system is easy to access through computers, mobiles and tablets – reinforcing our transition to high tech, high touch. Initial feedback shows that employees feel empowered and appreciate being able to recognise their colleagues in a simple and immediate way.

#### Performance management

Alignment of objectives and goals to our Strategy and Transformation will be key to our successful execution. To deliver this it is crucial that all employees are clear about what is expected of them and how success will be measured both in terms of what they need to deliver and the behaviours they need to demonstrate. All employees have clear objectives, which are formally reviewed twice yearly. They also need the opportunity to discuss and agree their development needs. We have introduced new principles to align our approach to performance across the Group for 2013/14. This will support our succession work as we identify and develop pipelines of talent to continue to support the Transformation. During 2014 we will be introducing an online Performance and Talent System to track the performance and potential of all our employees.

### Conclusion

Over the last year, we have established and continue to secure the foundations of a culture and structure that will be able to execute and deliver the Transformation effectively. This means having "the right people in the right roles focused on the right priorities". Getting the best people, doing their best work, with the best tools requires a disciplined and structured approach. The cultural change we are bringing about allows us to strengthen our succession plans for critical roles and pipelines as we accelerate our succession and talent work into 2014.

Creating and embedding our new culture is critical to the success of our Transformation. We have identified and communicated new Values, Ways of Working, Code of Conduct and leadership behaviours driving clear objectives and rigorous performance measurement, whilst also taking steps to harmonise our performance and development approach across the Group. We have begun the work to build succession pipelines, create a pay for performance culture and identify Group engagement actions which will drive engagement across Thomas Cook. This work will build a culture which will not only execute the Transformation but deliver a sustainable organisation.



# Ask & Thomas Cook will answer

“Ask & Answer” is an interactive online tool, offering potential and existing customers holiday tips and advice from the Company’s top travel experts

Representatives of Thomas Cook’s Product, Overseas and Customer Services teams are sharing their accumulated knowledge with customers through the “Ask & Answer” service available exclusively on [www.thomascook.com](http://www.thomascook.com). Designed to complement the detailed information pages, comprehensive FAQs and direct links to the customer services team available on the website, “Ask & Answer” features on each individual package accommodation page. Customers choosing to research their holiday online can now tap into the travel expertise of Thomas Cook employees as if they were in a store without the need to venture away from their sofas. Since launching in April 2013, we have received approximately 6,000 questions and posted in excess of 5,500 answers. We have seen an improvement in conversion, average booking value and time on the site as a result of implementing “Ask & Answer”

Image removed

1  
Strategic report

2  
Directors report

3  
Financial statements

*Let's  
go!*

**Transformation** the first 365 days

## Risk management

# Aligning risk to our strategic objectives

## Enhanced risk management capability

The Board is responsible for maintaining the Group's risk management and internal control systems with a mandate that includes defining risk appetite and monitoring risk exposures to ensure that the nature and extent of risks taken by the Group are aligned with its strategic objectives. During the year, the Group has made a significant investment in people and technology as it continues to enhance and develop its risk management capability. We continue to focus on further embedding a culture of risk management that will contribute towards effective strategy execution, ensuring both risk and opportunities are identified and managed to deliver long-term value creation.

## Our approach to risk management

Operating in a dynamic and rapidly evolving environment requires a flexible and responsive risk management process that can match the pace of change and provide management with a concise view of the Group's risk profile at any point in time.

Risk registers are continually updated through an ongoing programme of risk workshops with operational and financial management. Risk is formally assessed as a standing agenda item at all monthly segment level board meetings, with key risks being escalated and discussed within the Risk Matters Group ("RMG"). The RMG and the broader risk management framework has been designed to ensure the scope of coverage includes operational, financial and legal risks within a single framework. The purpose of the RMG is to provide leadership, direction and oversight with regard to the Group's overall risk framework, appetite, tolerance and relevant risk policies, processes and controls.

The RMG meets on a bi-monthly basis attended by senior executives from across the Group and our external advisers, in order to provide a further dimension of insight and validation. The RMG reports to the Audit Committee and Risks and Disclosures Committee.

The Audit Committee considers risk exposure against risk appetite by profiling key risks in respect of their potential impact and likelihood of occurrence, after consideration of mitigating and controlling actions that are in place. During the year, the Audit Committee has reviewed both top down and bottom up risk analyses and the Board has undertaken a detailed exercise to consider its risk appetite, both in relation to the Transformation activity and the business-as-usual environment. The aim of these activities has resulted in a Combined Assurance Plan, which will enable a risk-based approach to the ongoing internal audit and assurance programme. On an annual basis, the Board reviews risk appetite to ensure it is calibrated to the Group's strategic objectives.

The communication of the Thomas Cook Business System outlines our commitment to defining excellence in governance and adopting principles of risk management across the organisation and our processes. Our vision for the Thomas Cook Business System extends beyond the parameters of conventional risk management and we are now finalising our plans to ensure principles of risk management influence our approach to leadership, organisational structure, business policies and performance and operational monitoring, decision making and day-to-day processes are "risk proofed" and aligned to our Profitable Growth Strategy. We do not see this as a one-time transformational activity, but an opportunity for governance and risk management to influence the culture and ethos of our operations and people.

## Principal risks and uncertainties

The table below lists the principal risks and uncertainties that may affect the Group and highlights the mitigating actions that are being taken and the opportunities we aim to capture. The content of the table, however, is not intended to be an exhaustive list of all the risks and uncertainties that may arise.

### Principal risks

**Threat of a continued downturn in demand due to adverse global economic factors**

**Recruitment, development and retention of talented people**

**A major health and safety incident impacting our customers or colleagues**

**Geo-political and regulatory**

**Commodity, currency and interest rate**

**The business Transformation fails to deliver against strategic and operational targets**

**Failure to expand products and services that meet customer demand**

**Impact of competition upon price and market share**

**Failure of IT infrastructure**

**Internal control failure**

**Shortfall in pension funding**



## Mitigating actions

Our flexible business model allows us to align our committed capacity to fluctuating demand. We continue to develop multi-channel distribution and develop strategies to improve product mix, increase margins and reduce costs. Active co-ordination of Group-wide risk activity ensures teams have early indication of emerging risk and by working with risk specialists deliver robust and effective mitigations.

A CEO led review of leadership structure and personnel has resulted in 68 new leaders being appointed across the Group – reflecting a third being recruited externally, a third being retained and a third being promoted internally. These changes have enabled new strengths and skills to complement existing capabilities. We have made significant investment in our people attracting “world class” talent to strengthen our leadership across the Group. Our high potential talent is identified and nurtured through an Executive Development Programme. Our reward schemes are constantly evaluated to drive and reward performance and ensure retention of key talent. As we drive change throughout the organisation, our competency development and evaluation processes are focused on encouraging change agility. Sandra Campopiano, who was appointed as Chief People Officer in September 2013, will drive our People Agenda going forward.

There is a Group-wide structure in place to support management through the provision of staff training, auditing and specialist advice. The assessment of health and safety risks is inbuilt into daily management routines and is monitored by a comprehensive structure of health and safety committees that are in turn overseen by a corporate Health, Safety & Environmental Committee with Board level oversight.

Dedicated management teams ensure full compliance with formal regulatory requirements. We monitor stakeholder and political reactions to ensure we react to emerging political and regulatory developments.

Comprehensive strategy and supporting policies to undertake hedging activity in line with the needs of the business and prevailing market conditions.

We have a fully integrated Transformation plan to align the business to our Profitable Growth Strategy. Delivery of strategic Transformation is led by a high calibre team with a rigorous framework of review including Executive Committee meetings, one-to-ones between the Group CEO and her Direct Reports team, Direct Report meetings and Thomas Cook Leadership Council meetings.

The business has an extensive programme of market and client feedback, including what we believe to be one of the largest consumer surveys ever undertaken within the sector. The business has dedicated management teams focused on enhancing its portfolio of product and services, whilst continuously monitoring performance.

Management focus upon omni-channel distribution. Group-wide cost reduction programme collaborative working with key hoteliers and partners, and targeted effort to expand products and services aligned to market demand.

The Group's IT strategy, priorities and delivery plans are being reviewed as part of the IT Transformation project being led by the Group Chief Technology Officer. This review will ensure delivery of IT services and technology will be fit to meet the needs of rapidly changing technologies whilst maintaining integrity and performance of existing systems and operations which are key to the delivery of the Transformation.

Detailed policy and procedures spanning across key business functions. Established business processes with clearly defined transactional controls and independent monitoring activity.

Ongoing monitoring of pension scheme assets and liabilities. Independent assessment and corrective action taken by management.

## Opportunity

Our focus on delivery of our Profitable Growth Strategy means we are able to respond rapidly to economic improvement.

The creation of a high performing actively engaged team which will consequently lead to delivery of the key objectives of the Group's Transformation, embed the Thomas Cook Business System that will ultimately improve overall business performance on a sustainable basis.

We are committed to identifying initiatives that will enhance the safety culture and contribute to the continuous improvement of the safety and well-being of all our customers and colleagues.

The Group will continue to contribute to the constructive engagement with government agencies and other stakeholders to help create a sustainable framework for travel and tourism.

The Group derives certainty over its exposure to trends in the commodity or currency markets and interest rates. This enables the Group to plan and make informed decisions particularly during periods of high volatility.

To deliver sustainable growth in shareholder value, balancing the needs of our customers, employees and communities in which we work with our strategic objectives and corporate and social responsibilities.

Focus on new products and services will be the primary driver in delivering our Profitable Growth Strategy.

Grow market share in historic markets and further penetration of digital and distribution channels.

To set the tone and drive for change as business pursues strategy of high tech, high touch Transformation, ultimately providing our customers enhanced products, service and functionality. Delivering the IT strategy will result in a strengthening of the Group's capabilities which is also focused on making internal functions more efficient.

Enhanced control environment, minimising operational loss or fraud.

Early alert of pension liability ensures timely action whilst promoting robust financial planning.

*Let's go!*

## **Transformation** the first 365 days

Performance. Financial review

# Financially stronger: positioned for profitable growth

The achievements of the past year have significantly strengthened the financial position of the Group and positioned it for profitable growth.

Image removed

The past financial year has seen a significant improvement in the financial health of Thomas Cook

In March 2013, we held a Capital Markets Day where we set out the medium-term strategy for the Group for the three years ending 30 September 2015 and published detailed targets against which to track our progress. The status of our performance against those targets is summarised on page 20. Subsequently, in June, the Group concluded a complex, inter-connected £1.6 billion recapitalisation exercise to reduce debt, extend maturities and strengthen the capital base.

At the same time Group underlying EBIT has increased by £86 million to £263 million, primarily through the first wave of our Cost Out and Profit Improvement programme and the continuing recovery of the UK business. In line with the Group's Profitable Growth strategy, new product lines have been expanded, which has enabled revenue to be maintained at above £9 billion during a period where capacity commitments have been better aligned to customer demand.

In May 2013 the Group announced the disposal of its loss-making North American business. Although the disposal only generated £3.4 million of cash proceeds, this transaction significantly de-risked our business by exiting an extremely competitive market which had cost over £40 million in cash terms during FY12. After the year end, the Group also announced the sale of its outbound business in Egypt and Lebanon, the Neilson specialist holiday business in the UK, a corporate foreign exchange business and its interest in the Airline Group, which holds a stake in NATS, together generating further disposal proceeds of over £60 million.

Free cash flow has improved significantly, to £53 million, an improvement of £156 million over last year, due to better trading and enhanced disciplines in the management of working capital.

As a consequence of the progress over the past year, Group net debt has been reduced from £788 million to £421 million. Whilst further deleveraging of the business will continue to be pursued, the achievements of the past year have significantly strengthened the financial position of the Group and positioned it for profitable growth.

## Balance sheet recapitalisation

On 27 June 2013 the Group completed a major £1.6 billion recapitalisation of the business which included:

- Rights Issue and Placement of 496.6 million Ordinary Shares raising gross proceeds of £431 million,
- Issue of a new €525 million Eurobond with a coupon of 7.75% which matures in June 2020 and
- A new £470 million four year banking facility maturing in May 2017 to replace prior facilities, together with an additional £191 million facility available from 2015 and a separate £30 million bonding facility, which matures in May 2015.

Total costs of £73 million were incurred as part of the recapitalisation, of which £19 million has been recognised as a reduction in net proceeds from the equity issue. £37 million has been capitalised against the carrying value of the new bond and bank facilities and £18 million has been included in separately disclosed items within operating profit.

In addition, the recapitalisation has resulted in a significantly improved financial position of the Group by providing:

- A strengthened capital base to deliver greater financial headroom and flexibility,
- A stronger financial position to enable the Group to negotiate improved terms from its suppliers, credit insurers and other trading counterparties, and
- The financial resources and flexibility to invest in its Profitable Growth strategy.

Following the recapitalisation, the Group's debt levels have been reduced and the debt maturity profile has been lengthened to better match the expected operational cash flow profile. The impact on the Group's net debt and maturity profile is set out in the Treasury Management section below.

## Income statement

£m (unless otherwise stated)	Year ended 30 Sept 2013	Year ended 30 Sept 2012	Change £m	Change %
Revenue	9,315	9,195	120	1.3
Gross profit	2,059	2,026	33	1.6
<b>Underlying profit from operations (EBIT)</b>	<b>263</b>	<b>177</b>	<b>86</b>	<b>48.6</b>
EBIT separately disclosed items	(250)	(347)	97	28.0
<b>EBIT</b>	<b>13</b>	<b>(170)</b>	<b>183</b>	<b>—</b>
Other income/expenditure	1	2	(1)	(50.0)
Net finance charges (underlying)	(146)	(123)	(23)	(18.7)
Separately disclosed finance charges	(26)	(46)	20	42.2
Loss before tax	(158)	(337)	179	53.1
Tax	(49)	(104)	55	52.9
Discontinued operations	—	(149)	149	100.0
<b>Loss for the year</b>	<b>(207)</b>	<b>(590)</b>	<b>383</b>	<b>64.9</b>

Throughout the Finance Review the term 'underlying' refers to trading results after adjusting statutory results for separately disclosed items that are significant in understanding the ongoing results of the Group. Separately disclosed items are detailed on pages 35 and 36. Within the Financial Review results are considered on an underlying basis unless otherwise stated.

In implementing Transformation, the Group has undertaken certain activities that, combined with the normal translation effect of foreign exchange movements, impact upon the comparability of underlying performance for FY12 and FY13.

To assist in understanding the impact of these factors and their influence on year on year progression of the Group's performance, a "like-for-like" analysis has been presented in this report. A summary of the adjustments made to the reported results to arrive at a "like-for-like" comparison is set out below.

	Revenue £m	Gross margin %	Overheads £m	EBIT £m
<b>FY12 reported (continuing)</b>	9,195	22.0	1,849	177
India disposal <sup>1</sup>	(43)	(0.3)	(32)	(11)
UK disposals/closures <sup>2</sup>	(13)	(0.1)	(10)	1
CE disposals <sup>3</sup>	(30)	(0.1)	(15)	(2)
Impact of FY12 provision movements <sup>4</sup>	—	(0.1)	16	(24)
Impact of currency movements <sup>5</sup>	235	(0.1)	23	19
<b>FY12 "like for-like"</b>	<b>9,344</b>	<b>21.3</b>	<b>1,835</b>	<b>160</b>
<b>FY13 Reported</b>	<b>9,315</b>	<b>22.1</b>	<b>1,796</b>	<b>263</b>
<b>FY13 "like for-like" growth (£m)</b>	<b>(29)</b>	<b>64</b>	<b>39</b>	<b>103</b>
<b>FY13 "like for-like" growth (%)</b>	<b>(0.3)%</b>	<b>0.8%</b>	<b>2.1%</b>	<b>64.4%</b>

1 Reflects the results of Thomas Cook India prior to its disposal in August 2012.

2 Net impact of the disposal/closure of individual businesses comprising Explorers Hotel, FX Bureaux and FY12 store closures.

3 Net impact of the disposal of individual businesses comprising HCV, Austral Lagoons and Secrets.

4 Net impact of provision releases in Northern Europe and Airlines Germany in FY12 where the underlying liability for aircraft related and other costs no longer existed.

5 Net impact of movement in exchange rates on the translation of the results of non GBP entities.

## Transformation the first 365 days

### Performance Financial review continued

#### Revenue

Revenue for FY13 of £9 315 million represents an increase of £120 million (1.3%) on the comparable figure for FY12. Like-for-like revenue decreased by £29 million (0.3%) primarily as a result of planned capacity management.

Graph removed

Throughout FY13, the Group has pursued a strategy of closely managing committed capacity to market requirements in order to allow effective management of pricing and yield to achieve improved and sustainable quality of earnings. In FY13 the Group reduced overall committed capacity by approximately 5%.

Summer season revenue was also impacted by social unrest in Egypt which reduced revenue by approximately £40 million.

Although year-on-year volume driven revenue reduced by £290 million this was offset by the benefits on pricing and yield, increasing revenue by £261 million.

#### Gross margin

Underlying gross margin of 22.1% represents a 0.1% increase on FY12. On a like-for-like basis, FY13 gross margin of 22.1% represents a 0.8% increase on FY12.

Graph removed

The incremental benefits realised in FY13 from the Group's Cost Out and Profit Improvement programme totalled £134 million. Of this, £57 million contributes to gross margin improvement with £77 million being reflected in operating cost reduction (see below).

Pricing and yield benefits have been delivered through improved capacity management as well as improved capability in dynamic pricing across our businesses. These benefits have offset the margin impact of Summer 13 weather in UK and Continental Europe being unusually warm. We estimate that this impacted our gross margin by approximately £20 million (0.2%).

Cost inflation of £196 million represents a net increase across our relevant cost of sales of approximately 2.7%. The harmonisation of hotel purchasing across the Group has significantly improved our ability to optimise purchasing negotiations and provide benefits to our strategic hotelier partners through strengthened relationships. The benefit of this improved purchasing activity is not yet fully reflected in our financial results.

#### Operating expenses

In the year like-for-like operating expenses were reduced by £39 million (2.1%). This reduction represents the net effect of the impact of the Group's Cost Out and Profit Improvement initiatives with increases from certain volume-related airline costs and strategic operating expenditure investments as well as inflationary and performance related cost increases.

Graph removed

The Group's strategic operating cost investments were made to support the Transformation and our Cost Out and Profit Improvement initiatives, including:

- Operating investments to support Transformation (£17 million)  
In order to facilitate the Group's structural Transformation it is necessary to establish skill bases and infrastructure that facilitate future organisational efficiency and cost reduction through our Wave 2 initiatives. This results in operating investment in the areas of e-commerce development and IT that will be offset by future efficiencies across the Group as relevant transformational activity progresses. These investments cover improvements to our IT infrastructure and functional development in areas such as our reservation systems and dynamic packaging capability.
- Strategic marketing expenditure focused on web transition (£4 million). This represents cost required to support the Group's development of its web supported omni-channel strategy. As web penetration develops this will facilitate a compensating reduction in non web marketing.

- > Operation of leased concept hotels (£2 million) A key element of the Group's strategy for profitable growth is the further development of our concept hotel offering. These exclusive hotels are operated under a mix of franchise arrangements and lease arrangements. Approximately 75% of concept hotels are expected to be franchised with the balance leased.
- > Introduction of business activities optimising returns such as in-house duty free warehouse in Sweden (£2 million)

The Group has introduced strict assessment criteria to identify opportunities for integration of incremental activities that add value and meet our capital allocation requirements

### Underlying EBIT

In the full year FY13, the Group earned underlying EBIT of £263 million up £86 million (48.6%) on FY12 EBIT of £177 million. On a like-for-like basis Group EBIT increased by £103 million (64.4%).

In FY13, the Group implemented a number of projects that will support the delivery of our strategy for profitable growth. Given the nature of our business, there is a lead-time before the financial benefit of these initiatives will be reflected in financial results. As such, the like-for-like FY13 EBIT improvement of £103 million is driven primarily by improved capacity management, generating gross margin improvement and a net reduction in overheads.

Graph removed

A review of segmental performance by business is set out on pages 42 to 44.

### Separately disclosed items

Separately disclosed items represent costs or profits that have been recognised in the period which management believes are not the result of normal operating activity and performance. They are therefore disclosed separately to give a more comparable view of the year-on-year underlying trading performance.

The table below summarises separately disclosed items within these categories:

	Cash <sup>1</sup> £m	Non-cash £m	FY13 £m	FY12 £m
Restructuring costs	(107)	(20)	(127)	(55)
Refinancing costs	(18)	–	(18)	(30)
Goodwill impairment and asset valuation reviews	21	(39)	(18)	(206)
Onerous contracts and legal disputes	(16)	(43)	(59)	(10)
Amortisation of business combination intangibles	–	(14)	(14)	(28)
Provision for tax dispute resolution	–	(14)	(14)	(12)
Pension/other	–	–	–	(6)
<b>Impacting EBIT</b>	<b>(120)</b>	<b>(130)</b>	<b>(250)</b>	<b>(347)</b>
Finance-related charges	–	(26)	(26)	(46)
<b>Total</b>	<b>(120)</b>	<b>(156)</b>	<b>(276)</b>	<b>(393)</b>

1. The cash column above represents items that will impact cash in the current period or in the future (FY12: £115 million).

#### Restructuring costs

Restructuring costs include £44 million in relation to the UK, £43 million in relation to Group wide Transformation projects, £13 million in respect of the France turnaround plan, £8 million in respect of the Russia turnaround plan, £8 million in respect of specific Transformation activities within Continental Europe, £5 million in respect of UK aircraft fleet reductions and £3 million in respect of each of Airlines Germany and Head Office. Of these costs, £47 million are directly attributable to the Cost Out and Profit Improvement initiatives.

#### Refinancing costs

Financial structuring costs from the June 2013 recapitalisation of £18 million that cannot be attributed to specific debt or equity elements have been charged to the profit and loss account. Refinancing costs that are specifically attributable to financing elements have either been capitalised and will be amortised over the period of the funding (bank facility and bond issuance) or netted off against the share premium account (equity issuance).

## Transformation the first 365 days

### Performance Financial review continued

#### Goodwill impairment and asset valuation reviews

The net charge of £18 million includes a pre-disposal review of goodwill in respect of Thomas Cook Egypt and Lebanon (£18 million impairment), the review of the value of the Group's non-current asset investment in NATS (£29 million increase), a pre-disposal review of the goodwill and other assets of Neilson and its subsidiaries (£13 million impairment), a revaluation of specific investments held by the UK pension fund with a value guaranteed by the Group (impairment of £8 million) and other intangible asset impairments (£8 million)

In the prior year goodwill in respect of the then West Europe segment totalling £94 million was impaired. Also in the prior year an impairment of £96 million was made in respect of India prior to its disposal. Due to improved business performance, no further goodwill impairments have been made in the current year in respect of ongoing business activity

#### Onerous contracts and legal disputes

In the year the Group has assessed its position in respect of certain onerous contracts and made appropriate adjustments to assets on the balance sheet and made provision for future losses under these contracts. These contracts included certain UK service outsourcing contracts (£10 million), hotel leases (£14 million), sports marketing and related travel contracts (£9 million) and foreign exchange and other commercial contracts (£26 million)

#### Amortisation of business combination intangibles

The amortisation of business combination intangibles has reduced as a result of impairments made in 2012 as well as the disposal of the Group's North American business

#### Provision for tax dispute resolution

A provision of £14 million has been made following an adverse third-party sales tax judgement in respect of the Tour Operator Margin Scheme "TOMS" (under appeal). The Group will continue to monitor the progress of the case but takes a prudent view of the outcome and has no cash exposure

#### Finance related charges

The Group has provisions for future liabilities arising from separately disclosed circumstances primarily deferred acquisition consideration. A notional interest charge of £9 million on the discounted value of such provisions is recognised within separately disclosed finance related charges. Accelerated amortisation of £7 million of capitalised financing fees from cancelled facilities is also recognised. In FY13 the Group has adopted industry practice of separately disclosing the notional net interest charge arising from its pension scheme assets/liabilities (£9 million). Prior year comparatives are restated £1 million has also been charged in respect of IAS39 allocations of the time value of derivative products

#### Net finance charges

Net interest and finance charges for FY13 (excluding separately disclosed items of £26 million) were £146 million (2012: £123 million) up £23 million mainly as a result of costs arising from the sale and leaseback of aircraft in 2012

	FY13 £m	FY12 £m
<b>Net interest and finance costs</b>		
Bank and bond interest and related charges	(83)	(81)
Commitment fees	(7)	(4)
Letters of credit and bonding	(16)	(15)
Other interest costs	(14)	(12)
Interest and finance costs before aircraft financing	(120)	(112)
Interest income	6	7
<b>Net interest and finance costs after aircraft financing</b>	<b>(114)</b>	<b>(105)</b>
Aircraft financing	(25)	(10)
Fee amortisation	(7)	(8)
<b>Net interest expense</b>	<b>(146)</b>	<b>(123)</b>

Following the financing activity undertaken in June 2013, it is anticipated that net interest before aircraft financing will remain broadly flat until repayment of the Group's 2015 Bonds

In September 2013 two aircraft operating leases were extended such that under the IAS assessment criteria they are now adjudged to be finance leases. As such aircraft financing interest is likely to be around 10% higher in FY14 than FY13 without any further changes to aircraft financing

#### Operating lease charges

	FY13 £m	FY12 £m
<b>Included within net operating expenses</b>		
Aircraft operating lease charges	101	103
Retail operating lease charges	59	67
Hotel operating lease charges	34	28
<b>Total</b>	<b>194</b>	<b>198</b>

Retail operating lease charges have reduced by 12% primarily due to the reduction in the UK retail footprint following the closure of 185 stores

## Taxation

The Group tax charge and tax paid for the year can be analysed as follows

	FY13 £m	FY12 £m
<b>Current tax</b>		
UK	5	(4)
Overseas	39	30
<b>Total current tax</b>	<b>44</b>	<b>26</b>
Deferred tax	5	78
<b>Total tax charge</b>	<b>49</b>	<b>104</b>
<b>Cash tax</b>	<b>31</b>	<b>28</b>

The overall tax charge in the year reduced from £104 million to £49 million. In FY12, due to its trading position the Group derecognised significant deferred tax assets. In FY13 the tax position has become more normalised with profit and loss account tax charge and cash tax being more closely aligned. The Group continues to pay corporation tax in its profitable markets, in particular in Northern Europe and Germany, where the annual offset of profits against prior losses is restricted.

## Earnings / Loss per share

Underlying basic earnings per share for the year were 5.0 pence (FY12: 0.6 pence). The basic loss per share, after taking into account separately disclosed items, was 16.7 pence (FY12: loss 67.2 pence).

## Treasury management

The Group's funding, liquidity and exposure to foreign currency, interest rates, commodity prices and financial credit risk are managed by the centralised Treasury function and are conducted within a framework of Board-approved policies and guidelines.

The principal aim of treasury activities is to reduce volatility by hedging, providing a degree of certainty to operating segments and ensure a sufficient level of liquidity headroom at all times.

The successful execution of policy will support a sustainable low risk growth strategy, enable the Group to meet its financial commitments as they fall due and will enhance the Group's credit rating over the medium term.

## Cash and liquidity

Cash flow statement	FY13 £m	FY12 £m	Change £m
<b>EBITDA</b>	<b>425</b>	<b>316</b>	<b>109</b>
Working capital	77	(14)	91
Tax	(31)	(29)	(2)
Pensions and other	(18)	(22)	4
<b>Operating cash flow</b>	<b>453</b>	<b>251</b>	<b>202</b>
Exceptional items	(120)	(105)	(15)
Capital expenditure	(150)	(138)	(12)
Net interest paid	(130)	(111)	(19)
<b>Free cash flow</b>	<b>53</b>	<b>(103)</b>	<b>156</b>
Dividends	–	(33)	33
Disposals	(34)	192	(226)
New equity	431	–	431
Other	(31)	–	(31)
<b>Net cash flow</b>	<b>419</b>	<b>56</b>	<b>363</b>

Note: FY12 EBITDA represents £333 million from continuing operations offset by £17 million from discontinued operations (TCNA).

Free cash flow totalled £53 million, an improvement of £156 million, compared to 2012, due to better trading and working capital management which together improved by £200 million. The improved operating cash flow has facilitated the delivery of our Transformation programme by funding the costs of restructuring and increased capital expenditure. Cash interest costs are slightly higher than last year due to the sale and leaseback of aircraft in FY12.

Net cash flow was further improved through the equity issue in June 2013 as part of the recapitalisation process which, together with cash divested with our North American business, resulted in net cash flow of £419 million, all of which has been applied to debt reduction.

## Cash Conversion

The Group uses a measure of cash conversion reflecting the amount of cash flow retained by the business which can be used for investment in capital expenditure, debt repayment or payment of dividends.

£m	FY13	FY12
Free cash flow	53	(103)
Capital expenditure	150	138
FCF before Capex	203	35
Underlying EBITDA	425	316
Cash Conversion	48%	11%

Note: FY12 EBITDA represents £333 million from continuing operations offset by £17 million from discontinued operations (TCNA).

Cash conversion has improved from 11% to 48% in the year reflecting improved trading and significant improvements in working capital management.

## Transformation the first 365 days

### Performance Financial review continued

#### Debt and financing

The Group sources debt and finance facilities from a combination of the international capital markets and its relationship banking group. During the year, the Group completed a £1.6 billion recapitalisation as summarised on page 33 which, together with operating cash flows, reduced net debt from £788 million to £421 million.

Graph removed

The composition and maturity profile of the Group's net debt at 30 September 2013 is summarised below:

£m	30 September 2013	30 September 2012	Change	Maturity
2015 Euro Bond	(335)	(319)	(16)	June 2015
2017 GBP Bond	(300)	(300)	–	June 2017
2020 Euro Bond	(440)	–	(440)	June 2020
Commercial Paper	(134)	–	(134)	Oct/Nov 2013
Revolving Credit Facility	–	(142)	142	n/a
Term Loan	–	(150)	150	n/a
Finance Leases	(224)	(233)	9	Various
Other external debt	(122)	(123)	1	Various
Arrangement fees	40	18	22	n/a
<b>Total debt</b>	<b>(1,515)</b>	<b>(1,248)</b>	<b>(267)</b>	
Cash and cash equivalents	1,094	460	634	
<b>Net debt</b>	<b>(421)</b>	<b>(788)</b>	<b>367</b>	

The Group's £500 million Committed Facility comprises a Revolving Credit Facility of £300 million which was undrawn at 30 September 2013 and a £200 million bonding and guarantee facility of which £175 million was drawn at 30 September 2013. This Facility matures partly in May 2015 (£30 million) and partly in May 2017 (£470 million). The Group also has access to an Additional Facility of £191 million which is available from 2015 to partially repay the 2015 Bonds. £100 million of this facility matures in May 2016 with the remainder maturing in May 2017.

Graph removed

The Group's credit rating was upgraded during the year as a result of the recapitalisation.

Corporate ratings	2013		2012	
	Rating	Outlook	Rating	Outlook
Standard and Poor's	B	Stable	B-	Negative
Fitch <sup>1</sup>	B	Positive	B-	Stable

<sup>1</sup> Fitch rate the 2020 bond 1 notch higher at B+.

A significant proportion of the Group's debt is held in Euro as a natural hedge against its Euro denominated assets and earnings.

In addition to financing working capital and capital expenditure the Group finances its fleet of 86 aircraft. This is achieved through a mix of secured debt financing, finance leases and operating leases. Following the recapitalisation in June 2013, the Group completed a sale and leaseback transaction for six aircraft and has a requirement to arrange financing for a further six aircraft due for delivery in 2015 and 2016.

#### Cash management

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 Treasury 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.

A small portion of the Group's cash is either trapped or restricted in overseas jurisdictions. Such cash does not form part of the liquidity headroom calculation.



## Currency and commodity risk

The Group's companies operate globally and experience variations in input costs arising from movements in the exchange rates and oil prices. The main currency exposures include the Euro, relating to hotel sourcing, and USD for aircraft fuel costs.

Treasury executes hedging transactions on behalf of all business segments in line with policies agreed with local management using a mix of forward contracts and options. Hedging for both foreign exchange and fuel is built up over a period of up to 18 months on a season-by-season basis so that the business has a substantial amount of price certainty at the time of publishing holiday brochures.

## Interest rate risk

The majority of the Group's Eurobonds are at fixed interest rates. Treasury continually monitors the sensitivity of the Group's interest charge to movements in rates and periodically use interest rate derivatives to alter the fixed – floating mix. Short term borrowings under the bank facilities are typically at floating rates and investment of surplus cash also attracts a floating rate return.

## Counterparty credit risk

The Group is exposed to counterparty default when depositing surplus cash and when undertaking hedging transactions. The mark-to-market value of outstanding derivatives is measured frequently and added to the principal amount of deposits to determine total counterparty risk. Only counterparties with acceptable credit ratings are recommended to and approved by the Board.

## Hedging of fuel and foreign exchange

The Group hedges its principal transactional market risks – which are exposure to fluctuation in the sterling / euro and sterling / US dollar exchange rates and fuel price movements. The proportion of forthcoming requirements hedged are as noted below.

	Winter 2013/14	Summer 2014
Euro	90%	65%
US Dollar	92%	63%
Jet fuel	89%	62%

Note A5 at 31 October 2013

## Exchange rates

The average and year end exchange rates relevant to the Group were

	Average rate		Year end rate	
	FY13	FY12	FY13	FY12
GBP/Euro	1 19	1 21	1 19	1 25
GBP/US dollar	1 56	1 58	1 62	1 62
GBP/SEK	10 22	10 68	10 37	10 56

## Ordinary shares in issue

Million	Number
Ordinary Shares in issue at 1 October 2012	885 9
Ordinary Shares in issue at 30 September 2013	1 453 4
Weighted average number of shares in issue during the period	1,195 9

The increase in ordinary shares in issue arises from the exercising of warrants (70 9 million) and as a result of the placement (87 6 million) and rights issue (409 0 million) in June 2013.

## Post balance sheet disposals

After the year end the Group announced the disposal of the following businesses:

- > 1 Outbound tour operator businesses in Egypt and Lebanon
- > 2 UK corporate foreign exchange business
- > 3 Neilson Active Holidays
- > 4 91 5% of its investment in NATS

The combined gross proceeds of these disposals will be approximately £58 million. The value expected to be realised in relation to each of the above transactions has been reflected in the respective asset carrying values in the Group accounts for the year ended 30 September 2013.

In the year to 30 September 2013 the assets disposed of as listed above contributed £89 million to Group Revenue and £4 million to underlying EBIT.

## **Transformation** the first 365 days

Performance continued



High tech, high touch

# **DreamCapture:** Bridging retail with eTail

An example of the Group's high tech, high touch strategy, which combines cutting-edge technology with outstanding customer service to build strong connections with customers wherever, whenever and however they choose to interact, "DreamCapture" focuses on connecting the retail and online experience.

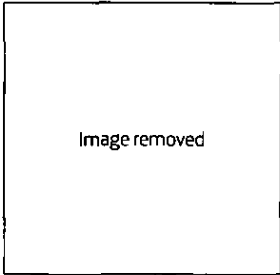
A large square box containing the text "Image removed".

Image removed

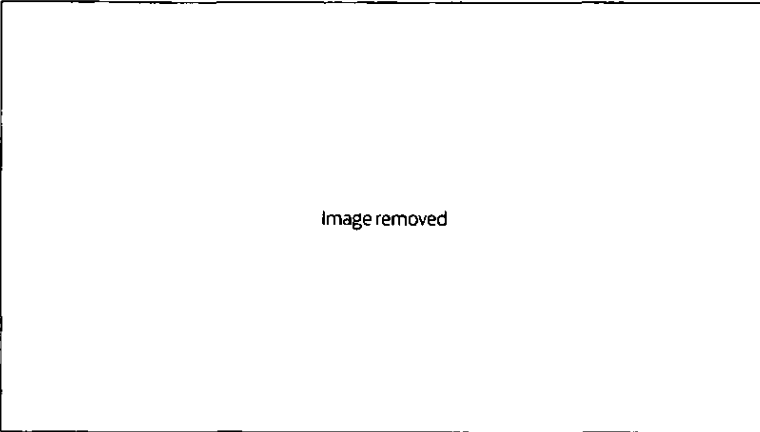


Image removed

This digital innovation replicates Thomascook.com search facets for the retail environment, linking the customer experience across all channels – from in-store to online – and allowing customers to decide how and when they interact with us when booking their holiday

Our retail consultants will use this customised service to build a shortlist of personalised holiday experiences that meet the specific needs of their customer. The customer can then access online giving them the choice of booking online, via the call centre or by going back to the store, thus linking the customer experience across all channels – whether it be retail or etail

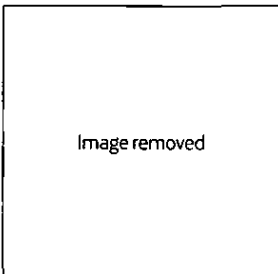


Image removed

1  
Strategic report

2  
Directors report

3  
Financial statements

## Transformation the first 365 days

### Performance. Operating review

#### Sources of growth in underlying EBIT

In understanding the delivery of the Group's Transformation it is helpful to view the performance of each business segment on a like-for-like basis. The adjustments to reported underlying results to reflect year on year growth in like-for-like EBIT, on a segmental basis are summarised below

£m	United Kingdom	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
FY12 reported	13	52	101	35	(24)	177
Disposals/closures	(10)	(2)	–	–	–	(12)
Provision movements	–	–	(9)	(15)	–	(24)
Foreign Exchange	–	12	5	2	–	19
FY12 like for like	3	62	97	22	(24)	160
FY13 Reported	66	78	109	48	(38)	263
Like for Like EBIT Growth	63	16	12	26	(14)	103
Like-for Like EBIT Growth %	2 100	25 8	12 4	118 2	(58 3)	64 4

Across the Group in FY13 the drivers of EBIT growth were

£m	United Kingdom	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
FY12 like-for-like EBIT	3	62	97	22	(24)	160
Volume	(38)	(16)	(7)	8	(5)	(58)
Gross margin %	46	14	25	38	–	122
Overheads	55	18	(5)	(20)	(9)	39
FY13 EBIT	66	78	109	48	(38)	263

#### Cost out and profit improvement

The cost out and profit improvement programme produced the incremental gross margin and operating expense benefits in each segment as noted below, in the year to 30 September 2013

£m	United Kingdom	Continental Europe	Northern Europe	Airlines Germany	Corporate	Group
Gross margin	37	6	2	12	–	57
Operating expenses	69	4	–	1	3	77
Total	106	10	2	13	3	134

#### United Kingdom and Ireland

Turnaround continues at pace with underlying EBIT growth of £64 million.

##### At a glance financial highlights

£m	FY13	Growth*	Like-for Like Growth
Revenue	2,977	(132)	(119)
Gross margin (%)	25 9%	1 1%	1 2%
Operating expenses	(704)	65	55
EBIT	66	64	63
EBIT margin %	2 2%	1 9%	2 1%
Pax booked (No)	6 2m	(0 6)m	(10 0)%
Pax committed capacity	3 3m	(0 2)m	(6 1)%

\* Excludes India

Trading turnaround was focused on the improvement in the quality of earnings through improved yield management, facilitated by a reduction in committed capacity, and a reduction in unprofitable business in specialist markets

Operationally, focus was on the continued simplification of the business with de-duplication of back office functions and a significant reduction in the number and scale of management boards. First steps were taken in a radical simplification of the UK corporate structure which will allow further complexity to be removed from the business

From a customer perspective this corporate simplification is manifested through the launch of the Group's new brand identity on 1 October 2013 and a reduction in the number of UK brands from 27 to 10

On the high street the business continued the overhaul of its retail estate with the number of retail outlets being reduced by 195 from 1,069 to 874. The roll-out of the Group's high tech concept stores commenced with 5 openings, and this combined with the roll out of store rebranding will deliver a refreshed high street presence

Financially, the UK turnaround plan delivered year on year cost savings of £64 million and further savings of approximately £42 million were achieved through Group-wide cost out and profit improvement initiatives

Improved yield management combined with contribution from the cost out and profit improvement initiatives realised a 1 1% increase in gross margin percentage

These trading improvements significantly improving quality of earnings offset the managed volume reduction of non-profitable business to deliver underlying EBIT of £66 million, which, in delivering an EBIT margin of 2 2% represented a significant step towards achievement of the FY15 targeted 5% EBIT margin

## Thomas Cook cares

The UK business identified that there was a great need to help reduce negative sentiment across its UK brands in the area of social media. @ThomasCookCares was created to help do just that, starting on 19 August, they have reduced negative sentiment from 22% across the UK to 7%, and have also started pro-active outreach. This pro-active outreach is based on people Tweeting things like "I need a holiday", and based on the team's tools, they can identify individuals' age, gender, location, likes and dislikes through their social profile. Based on this information the team can Tweet individuals a direct link that would be specific to them, for example if someone is 18, perhaps a Club 18-30 holiday or if they are 60+ and like big bands, a link to a cruise. Previously this level of detail for marketing has not been available.

## Lots of "friends" in Belgium

According to external research Thomas Cook's brands dominate the social media landscape in Belgium's travel industry with Neckermann and Thomas Cook Belgium having nearly three times as many Facebook "friends" than their nearest competitor.

Image removed

## Continental Europe

Underlying EBIT improved by 50% with underperforming businesses stabilised.

### At a glance financial highlights

£m	FY13	Growth	Like-for-like Growth
Revenue	4,195	110	(10)
Gross margin (%)	13.8%	(0.3%)	0.0%
Operating expenses	(503)	22	18
EBIT	78	26	16
EBIT margin %	1.8%	0.5%	0.4%
Pax booked (No)	7.2m	(0.1)m	(1.4)%
Pax committed capacity	2.5m	(0.4)m	(13.8)%

The Continental Europe reporting segment combines the previous West and Central Europe segments and France.

Through more integrated management the Group will realise the benefits of scale and the implementation of common processes and procedures where appropriate, whilst maintaining local knowledge and capability.

Across Europe the Group took action to significantly reduce risk and improve quality of earnings through reduction in committed capacity. These reductions of close to 30% in the Winter season and 10% in the summer (average 13.8%) allowed the businesses to significantly improve its flexibility. Through leveraging and strengthening hotelier relationships capacity was added during the seasons where demand was highest, resulting in the overall reduction in bookings being 12% ahead of capacity management.

Following a review of the French business at the start of the year, it was decided to retain the business and integrate it within the Continental Europe segment. A detailed turnaround plan was developed and implementation is proceeding well towards achieving breakeven by FY15.

The stabilisation and integration of our Russia business continues to make good progress. Underlying EBIT growth of 23.2% represents a significant improvement on the prior year, giving an EBIT margin of 1.8%. In addition to the currently dilutive impact of our French and Russian businesses EBIT margin was also influenced by pricing pressure in some markets, which is being addressed through our hotel product strategy.

Controlled distribution of product within Continental Europe is significantly lower than in other segments. This is being addressed through increasing focus on our multi-channel strategy, with the development of improved web capability and marketing throughout Continental Europe being a strategic focus area.

Let's go!

## Transformation the first 365 days

### Performance Operating review continued

#### Northern Europe

The Northern European business once again performed robustly in the year to 30 September 2013 and achieved a record EBIT result.

#### At a glance financial performance

£m	FY13	Growth	Like for like Growth
Revenue	1,239	66	13
Gross margin (%)	27.4%	0.4%	1.1%
Operating expenses	(230)	(15)	(5)
EBIT	109	9	12
EBIT margin %	8.8%	0.3%	0.9%
Pax booked (No)	1.5m	-	(2.2)%
Pax committed capacity	1.4m	-	(1.1)%

Revenue growth of 1% on a like-for-like basis and improved gross margins resulted in underlying EBIT growth of 3.9% and like for-like EBIT growth of 13.0%. Gross margin improved by 1.1% on a like for like basis.

Reflecting market conditions, Winter 12/13 capacity was reduced by 4% with capacity for the full year reduced by 1%. This capacity reduction was offset by a combination of higher average sales prices and sales mix. Despite challenging summer 2013 trading conditions due to the very good summer weather in the Nordics, gross margin remained strong with growth driven by yield management, positive currency effect, reduced agent sales and a successful launch of two new own operated Sunprime concept hotels. These hotels form part of the Group strategy to market more concept hotels and differentiated products. The increase in operating expenses is primarily due to these new leased hotels and insourcing of tax free goods logistics in the airline.

The Northern European market for traditional package holidays continues to be strong however, recognising developing market trends and new opportunities in the dynamic packaging market, the Group is investing to develop its flexible package capability and offering, leveraging strength from the wider Group.

In December 2012, Northern Europe launched the new branding platform with the Sunny Heart as the unifying symbol for all brands in the business segment. This was a pilot launch for the wider Group, leading to the Group wide launch on 1 October 2013.

#### Travelguide

This year Thomas Cook Germany launched the award winning personalised travel app "Travelguide" which, from December 2013, will have increased functionality, including the capability for customers to book excursions in destination.

Image removed

#### Successful launch of two new Sunprime hotels

The Sunprime hotel concept is exclusively offered by Thomas Cook and is especially created for adults holidaying without children looking for quality and comfort. In summer 2013, we opened the refurbished and rebranded Sunprime Miramare Beach Hotel in Rhodes and the Sunprime Waterfront Palma Beach Hotel in Majorca. Both hotels have been very popular with customers and have received high customer satisfaction scores. During summer 2014, we will be launching two further Sunprime hotels in Turkey, both beachfront properties one outside Alanya and the other in Marmaris.

Image removed

## Airlines Germany

Underlying EBIT growth of 37% through managed growth and yield management

### At a glance financial performance

£m	FY13	Growth	Like-for like Growth
Revenue	1,312	147	116
Gross margin (%)	28.6%	1.1%	1.1%
Operating expenses	(327)	(42)	(20)
EBIT	48	13	26
EBIT margin %	3.7%	0.7%	1.8%
Pax booked (No)	6.9m	0.2m	2.3%
Pax committed capacity	7.5m	-	0.3%

The Airlines Germany business has performed strongly in the year to 30 September 2013

Capacity was increased in the long haul business driven by the re-allocation of an aircraft from within the Group, and with this capacity increase higher yields (+4%) and a higher load factor (+0.9%p) were achieved. Due to reduced capacity in the whole short/medium haul market, yields (+7%) and load factors (+1.1%) have improved significantly, especially in the Winter season.

These effects combined with the delivery of the Group-wide profit improvement programme, more than offset the increases of the hedged Kerosene price in Euro, increased depreciation (as a consequence of the Sale & Leaseback transaction in the prior year) and the adverse effect of the Egypt crisis in summer allowing like-for-like EBIT more than double from the prior period.

### The Sunny Heart takes off

Starting from 1 October, all aircraft across the Group are going to be repainted with our new Sunny Heart logo

Image removed

## Corporate

Development of Group functions to drive the Transformation, also impacted by non-recurring costs

### At a glance financial highlights

£m	FY13	Growth	Growth %
Operating expenses	32	9	39.1%
Foreign exchange	6	5	500%
<b>Total</b>	<b>38</b>	<b>14</b>	<b>58.3%</b>

During the year Group wide functions necessary to drive the Group's Transformation and continue its future profitable growth were developed. These functions include Finance, HR, IT, Legal, E-Commerce and Procurement. In order to establish these Group functions in the time available there was initially a high utilisation of temporary and contract labour. Through the course of the year this resource has gradually been brought in house, reducing future run rates. Additionally due to the relative performance of the Group in the financial year 2013 and the prior period, incentive based remuneration increased year on-year.

Prior to the Group's refinancing completed on 27 June 2013, the Group operated with restricted facilities for the hedging of foreign exchange exposures. In the year this resulted in foreign exchange losses of £6 million being incurred (2012: £1 million).

## Transformation the first 365 days

Graphic removed

Personal

# Inspiring our customers wherever, whenever

In May 2013 we introduced our Destination Discovery online holiday search platform, and with it we began to offer expert advice to inspire customers with personalised holiday recommendations using information provided by the customer.

Working as an online travel agent, it can be used by customers at home or by consultants in store, to help enhance customer service and add to their existing knowledge and resources. The technology provides users with detailed country research, in-depth travel videos and photos, street maps showing hotel locations and surrounding areas, and indicates the best time of year to visit countries. The site provides data on more than 2,500 destinations using material from 100 travel experts and professional travel writers.

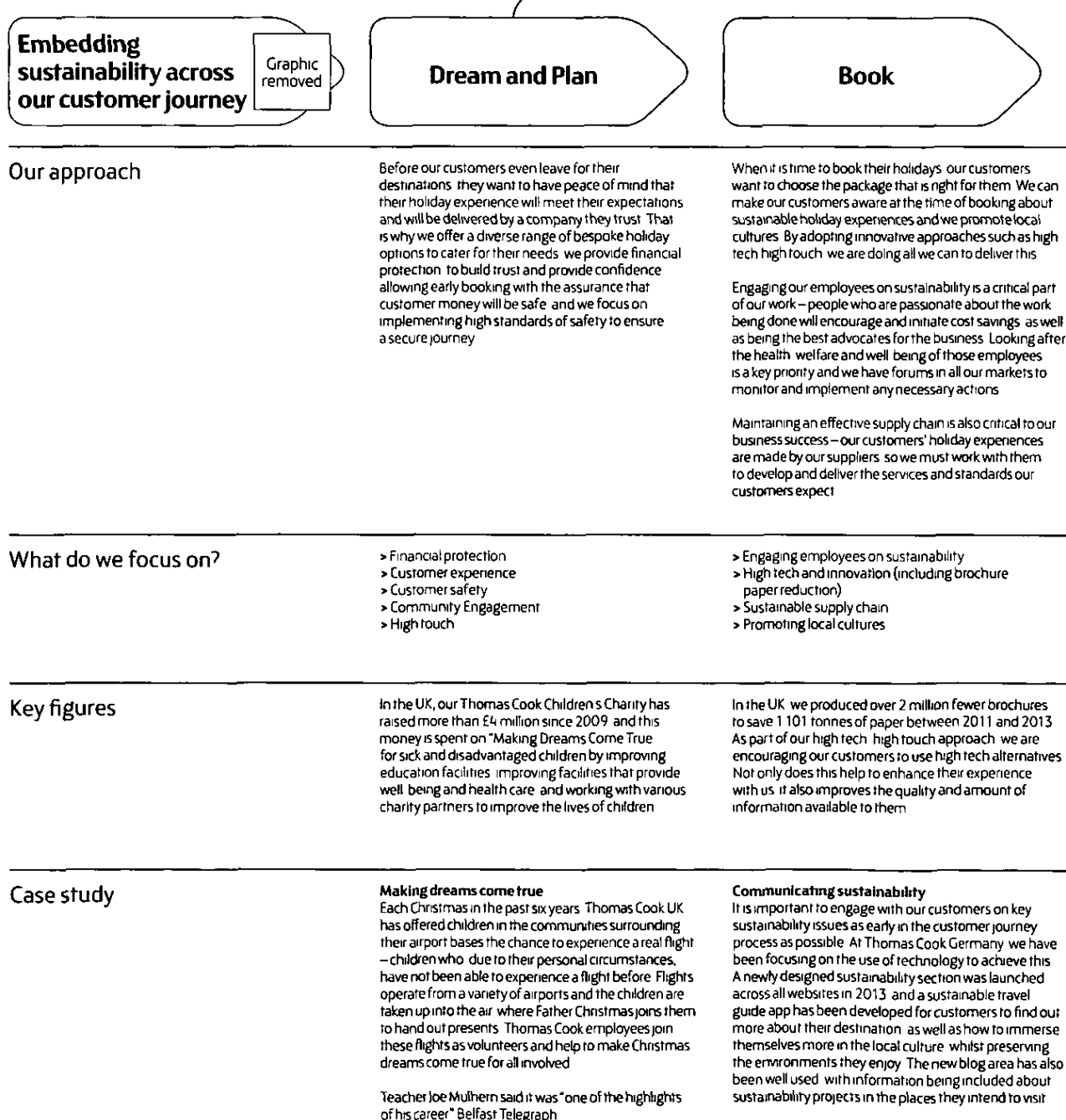
Harnessing technology for exciting new applications like Destination Discovery helps our customers create their dream holiday wherever and whenever.

Image removed



## Transformation the first 365 days

### Performance Sustainability continued



Graphic removed

**Depart**

On departure, our customers want an easy and stress free journey. Through our focus on first class customer service, we are making sure that we deliver this consistently. But there is also a lot we are doing behind the scenes to reduce our environmental impact and improve efficiencies. From reducing carbon emissions across our fleet to minimising our operational waste, we are working to build a better business.

Climate change and greenhouse gas emissions remain a global challenge for all and we recognise the part our business plays in addressing this challenge. We also recognise the risk that our business faces from environmental threats. The majority of our emissions come from our airlines and increasing fuel efficiency therefore continues to be one of our key priorities – we are proud to operate one of the most efficient airlines in the world.

- Climate change/GHG emissions
- Fuel efficiency
- Energy efficiency/security
- Waste (including in-flight waste)
- Customer service
- Child protection

GHG Emissions Data and 70.9g CO<sub>2</sub> per RPK and 0.45kg CO<sub>2</sub> per £1 turnover. See page 47 for greenhouse gas emissions data for period 1 October 2012 to 30 September 2013.

**Optimum Flight**

Through a partnership with Manchester airport and collaborative working between global air navigation service providers, Thomas Cook UK Airlines operated a test flight programme to achieve the "Optimum Flight". The aims of this were to investigate increased efficiencies in all areas of flight operations using a variety of techniques and results were measured to calculate reductions achieved. Fuel efficiency remains a key focus of all our airlines and we continue to operate one of the most fuel efficient airlines in the world.

**Arrive and Experience**

As our customers arrive at their holiday destinations, we continue to embed sustainability throughout our offer.

We strive to create thriving communities where our employees live and work, as well as where our customers travel. It is an integral part of creating a holiday experience. By supporting destinations, we are ensuring a high quality service and by investing in communities we are helping to grow our business and attract a talented workforce.

Similarly, child safety and protection is central to our business and Thomas Cook Group is fully committed to the UN Convention on the Rights of the Child. We believe it is our responsibility to promote and safeguard children's welfare and our focus on this work and commitment to "The Code" (an industry driven international code of conduct) has this year led to us being nominated for a Responsible Tourism award.

- Health and safety
- Quality assurance
- Child protection
- Local economic development
- Promoting local cultures
- Resource efficiency
- Water management
- Engaging customers on sustainability
- Sustainable supply chain

243 Travelife awards: 88% of these Gold  
40 Local Label events in over 20 destinations around the world.

**Local Label excursions**

In the summer of 2013, we introduced "Local Label" excursions, to focus on the promotion of local products and culture to our customers, while boosting local economies and environments. The excursions typically enable our customers to experience life and the communities away from the beaches, bars and other features they normally see during their holiday. Examples include the 100% Mayan excursion in Mexico, where customers get the chance to spend time with a real Mayan community in a village near the Sian Ka'an biosphere reserve. The money raised from these experiences is being used to help villagers improve their cultivation techniques.

**Return Home and Share**

We want all of our customers to enjoy their trip and experience with Thomas Cook. That is why we closely monitor their satisfaction through frequent customer feedback surveys.

For us to continually develop our business and to ensure we focus our efforts on the issues which are most important, we place significant emphasis on wider stakeholder engagement and communication. We ensure regular interaction with our key stakeholder audiences through various means including face to face meetings, communications and questionnaires.

In-flight waste is also one of our main waste streams and our airlines have been leaders in tackling this issue, despite the operational and legislative challenges it brings. Improving efficiencies extends to waste management and can bring a cost benefit as well as customer engagement.

- Customer satisfaction
- In-flight waste
- Stakeholder engagement

Feedback from our customers: 94% of customers in Northern Europe expressed overall satisfaction with their holidays. 83% of our customers in Germany would recommend Thomas Cook to a friend.

**In-flight waste**

A new recycling initiative introduced this year at Oslo airport by Thomas Cook Airlines Scandinavia has demonstrated the ability to engage customers, reduce environmental cost and raise funds for local communities. Several years ago, the airline was the first to separate collection of plastic bottles and aluminium cans from flights for recycling and now these are being sold to recycling centres. Money raised from this is then distributed directly to local charity, Save the Children Norway (Redd Barna).

More information regarding the Thomas Cook Group approach to sustainability can be found in our sustainability report at [www.thomascookgroup.com/sustainability](http://www.thomascookgroup.com/sustainability)

**Let's go!**

## Performance Sustainability

Sustainability  
is at our heart

We launched our Group vision for a sustainable future in 2010 to "Ensure the longevity of our business through sustainable Transformation and profitable growth and to integrate sustainability into everything that we do and into every element of the customer journey – every product we sell, every customer's holiday experience and every employee's role"

Sustainability is fundamental to the success of our business. Not only is it at the heart of how we behave, it is a principle that is deeply embedded at each stage of our customers' experience with us. From planning their holiday through to booking, arriving home and sharing their experience with friends, sustainability plays a key role in how we operate on a daily basis.

## Sustainability and business strategy

Our Transformation is geared around sustainable value creation. For us this means having the best people, best products and best processes in place to create a thriving business. Our approach to sustainability is intrinsically linked to this objective. For instance:

- > By working with suppliers to build trust, we are strengthening our relationships and creating a more sustainable marketplace
- > By increasing efficiencies and minimising wasteful practices, we are generating significant savings while safeguarding the environment
- > By engaging and energising our employees through talent development, we are bringing out the best in our people
- > And by supporting global communities we are increasing our social licence to operate across the world

Our strategy for Profitable Growth, which was presented to investors and other stakeholders in March of this year, has created the framework for our future success. Implementation of our strategy will continue to drive significant change and improvement across our Group as our people work together to champion our Transformation.

## Driving a sustainable Transformation

As well as driving our performance in the areas listed above, the Transformation has helped us to improve our performance across a number of key areas in 2013.

The recruitment of high calibre talent into the organisation at executive and other levels of management has contributed significantly to the raising of standards and disciplines required to deliver our corporate strategy. This has been coupled with a significant cultural shift in our business. We have implemented a new set of corporate Values in 2013, as well as embedding a Code of Conduct by way of a thorough training programme.

The new strategy has also helped us to minimise many elements of risk. These include the potential impacts of instability, water and energy shortages and potential human rights issues in destinations, as well as the financial impacts of carbon legislation and consumer directives.

## Our Code of Conduct

The launch of the new Thomas Cook Code of Conduct in 2013, which covers a number of key areas such as operating sustainably, community engagement and child protection issues, has meant that over 90% of our employees across the Group have received training on these topics and plans are in place to ensure the remainder are trained in the near term. A constant training programme is in place to capture all new staff and refresh existing staff, to keep their focus on the importance of good behaviours in delivering a sustainable future for our business.

## Delivering our Group vision for a sustainable future

We work hard to identify the key areas of focus, which will contribute to this vision, and have consulted a number of stakeholder groups to review these areas. We are also in constant contact with millions of our customers, employees, suppliers and many other groups, and continue to use their input to ensure that we are focusing on the sustainability topics that matter most to them.

As part of our Transformation process, we reviewed all stages of the customer journey in 2013, and have mapped our sustainable impacts against these. Our approach, areas of focus, key figures and supporting case studies are given on pages 48 and 49.

## Managing sustainable development

The Board is responsible for the long-term success and sustainability of the Group, with the responsibility for overseeing the development by management and approval of our sustainability strategy being delegated to the Health, Safety and Environmental Committee.

## Climate change performance

Global greenhouse gas emissions data for period 1 October 2012 to 30 September 2013		Tonnes of CO <sub>2</sub> equivalent
Total emissions		4 165 701
Airline fuel		4 125 328
Gas		6 450
Diesel		2 290
Petrol		611
Other fuels		153
Electricity, heat and steam		30 869

## Methodology

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

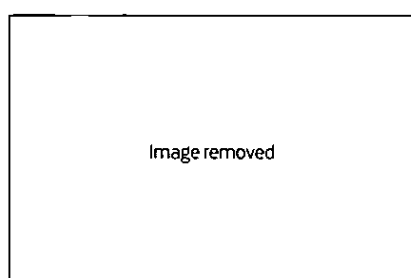
- > Excludes energy use in shared offices where rates are included in the rent and data is therefore unavailable. This data is not considered to be material.
- > Excludes Thomas Cook Russia as data was unavailable. This is not considered to be material.

We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition), data from EU Emission Trading System and emission factors from the UK Government's GHG Conversion Factors Guidance 2010.

## Transformation the first 365 days

### Governance Board of Directors

The Board is chaired by Non-Executive Chairman, Frank Meysman. In addition to the Chairman, the Board currently includes two Executive Directors and seven Non-Executive Directors. Each of the committees of the Board is chaired by a Non-Executive Director.



#### Directors

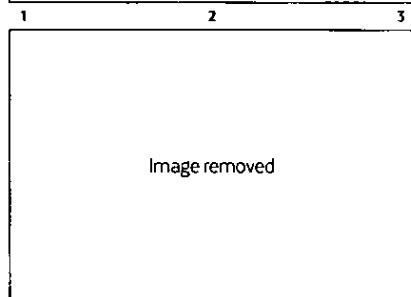
**1 Frank Meysman**  
Non-Executive Chairman 61

**Appointment** October 2011

**Committee memberships**  
Chairman of Nominations Committee

**Skills & experience** Frank Meysman was appointed Chairman Designate of the Company on 1 October 2011 and became Chairman on 1 December 2011. He enjoyed a successful executive career in dynamic global brand companies including Procter & Gamble between 1977 and 1986, Douwe Egberts between 1986 and 1990 and the Sara Lee Corporation between 1990 and 2003 where, from 1997, he was Executive Vice President and a member of the Board of Directors. Since leaving Sara Lee, Frank has been a Non-Executive Director including Chairman of a number of public and private international companies.

**Other appointments** Chairman of Betafence and JBC NV. He is also an Independent Representative Director of Picanol NV Warehouses De Pauw (WDP) and Spadel S A.



**3 Michael Healy**  
Group Chief Financial Officer 53

**Appointment** July 2012

**Skills & experience** Michael Healy joined the Company on 14 May 2012 and became Group Chief Financial Officer on 1 July 2012. Prior to this, he was Group Finance Director of Kwik-Fit Group. Michael has considerable international experience across a broad range of industries and was previously Chief Operating Officer and Finance Director of the Hong Kong listed First Pacific Company Limited and subsequently Chief Financial Officer of ebookers plc.

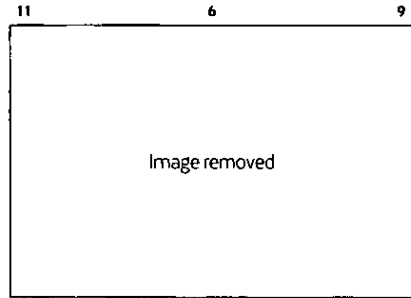
**4 Dawn Airey**  
Independent Non-Executive Director 53

**Appointment** April 2010

**Committee memberships** Member of Audit Committee, Health, Safety & Environmental Committee, Nominations Committee and Remuneration Committee.

**Skills & experience** Dawn Airey was appointed as an Independent Non-Executive Director on 12 April 2010. She has over 28 years' experience in the media industry and has held senior positions at some of the UK's leading media companies. She is currently Senior Vice President of Yahoo! EMEA. Until April 2013, she was President of CLT-UFA UK Television Limited within the RTL Group and prior to this, she was Chair and Chief Executive Officer of Five TV, after joining the company from her role as Managing Director, Global Content at ITV plc. Between 2004 and 2008, she was also a Non-Executive Director of easyJet plc.

**Other appointments** Chair of the National Youth Theatre.



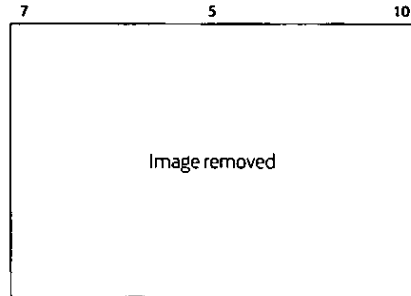
**2 Harriet Green OBE**  
Group Chief Executive Officer 51

**Appointment** July 2012

**Committee memberships** Member of Health, Safety & Environmental Committee and Nominations Committee.

**Skills & experience** Harriet Green joined the Company as Group Chief Executive Officer on 30 July 2012. Prior to this, she was Chief Executive Officer of leading high service technology distributor Premier Farnell plc. Harriet is a global executive with extensive, multi-channel business leadership experience of the worldwide technology and industrial markets. She has driven innovation and strategic transformation through profitable global growth strategies and delivered industry leading results. Harriet has a real focus on employee engagement, having lived and worked on four continents running businesses for Premier Farnell and volume distributor Arrow Electronics Inc. In recognition of the ongoing Transformation of Thomas Cook, she was named "Leader of the Year 2013" in the National Business Awards.

**Other appointments** Non-Executive Director of BAE Systems plc and Emerson Electric Co. She is also a member of the UK Prime Minister's Business Advisory Group and a founder member and trustee of the PeaceWorks Foundation.



**5 Emre Berkin**  
Independent Non-Executive Director 52

**Appointment** November 2012

**Committee memberships** Member of Health, Safety & Environmental Committee, Nominations Committee and Remuneration Committee.

**Skills & experience** Emre Berkin was appointed as an Independent Non-Executive Director on 1 November 2012. He has considerable experience across the technological sector and international markets and, being based in Turkey, he has vital knowledge of one of the key destinations for millions of our customers.

Between 1993 and 2006 he held a number of senior positions at Microsoft, latterly as Chairman, Middle East & Africa and Vice President, Europe Middle East & Africa where he led all aspects of Microsoft business in 79 countries. Since 2006 he has acted as a Non Executive Director to a number of companies, including Pegasus Airlines, Turkey's leading low cost carrier, and a broad range of technology companies including Alcatel Lucent Teletas Telekomunikasyon A S, which are both listed on the Istanbul Stock Exchange.

**Other appointments** Non Executive Director of Alcatel Lucent Teletas Telekomunikasyon A S and Pegasus Airlines

#### 6 Roger Burnell Senior Independent Director 63

**Appointment** March 2007

**Committee memberships** Chairman of Remuneration Committee, Member of Audit Committee, Health, Safety & Environmental Committee and Nominations Committee

**Skills & experience** Roger Burnell was appointed Senior Independent Director of the Company on 4 August 2010, after joining the Company as a Non-Executive Director in March 2007. He was also a Non Executive Director of MyTravel Group plc from April 2003 and prior to this, he was Chief Operating Officer and a Director of Thomson Travel Group plc.

**Other appointments** Non-Executive Director and Chairman of the Risk Committee of Coventry Building Society

#### 7 Peter Marks cbe Non-Executive Director 64

**Appointment** October 2011

**Committee memberships** Chairman of Health, Safety & Environmental Committee

**Skills & experience** Peter Marks was appointed as a Non-Executive Director on 1 October 2011. He has over 45 years' experience in the retail industry and has managed a broad range of businesses and functions. He was Group Chief Executive of The Co-operative Group from 2007 until May 2013 and prior to this he held a number of senior positions including Chief Executive, United Co-operatives between 2002 and 2007 and Chief Executive, Yorkshire Co-operatives from 2000 to 2002.

#### 8 Carl Symon Independent Non-Executive Director 67

**Appointment** October 2013

**Skills & experience** Carl Symon was appointed as an Independent Non-Executive Director on 3 October 2013 and will be appointed Senior Independent Director following the Company's AGM in February 2014. He has extensive global business operations and management experience having retired in 2001 from IBM after a long career during which he held various senior positions, both globally and as Chairman and Chief Executive Officer of IBM UK. His other former positions include Non Executive Director of Rolls Royce Group plc, BT Group plc and Rexam plc and Chairman of HMV Group plc.

**Other appointments** Non Executive Director of BAE Systems plc

#### 9 Warren Tucker Independent Non-Executive Director 51

**Appointment** October 2013

**Skills & experience** Warren Tucker was appointed as an Independent Non Executive Director on 3 October 2013 and will become Chairman of the Remuneration Committee following the Company's AGM in February 2014. Warren has significant experience in international business and strategic transformations. He was from 2003 until May 2013 Chief Financial Officer of Cobham plc. He is a chartered accountant and has previously held senior finance positions at British Airways plc and Cable & Wireless plc.

**Other appointments** Non Executive Director of Reckitt Benckiser Group plc

#### 10 Martine Verluyten Independent Non-Executive Director 62

**Appointment** May 2011

**Committee memberships** Chairman of Audit Committee, Member of Nominations Committee and Remuneration Committee

**Skills & experience** Martine Verluyten was appointed as an Independent Non Executive Director on 9 May 2011. She has significant international financial and IT expertise and has held a number of senior finance positions across the telecommunications, electronics and materials sectors. Between 2006 and 2011 she was Chief Financial Officer of Umicore, a Brussels-based materials technology group and from 2000 to 2006 she was Group Controller and subsequently Chief Financial Officer of the mobile telephone operator Mobistar.

**Other appointments** Non Executive Director of 3i Group plc, Supervisory Board member and chair of audit committee of STMicroelectronics NV and Independent Director of Group Bruxelles Lambert. She also chairs the audit committee of the Flemish Region in Belgium.

#### Group General Counsel and Group Company Secretary

##### 11 Craig Stoehr Group General Counsel 46

**Appointment** April 2013

**Skills & experience** Craig Stoehr joined the Company in April 2013 as Group General Counsel. Prior to joining the Company, Craig served as General Counsel and a member of the Executive Management Committee of Eastgate Capital Group, the private equity arm of The National Commercial Bank of Saudi Arabia. Prior to joining Eastgate, Craig was a partner at Latham & Watkins, a top tier global law firm. Craig also has a significant amount of business experience, having served as chief executive of several small sports, media and entertainment businesses in Europe and the United States.

##### 12 Derek Woodward Group Company Secretary 55

**Appointment** April 2008

**Skills & experience** Derek Woodward joined the Company as Group Company Secretary in April 2008. Prior to this, he spent six years as Head of Secretariat at Centrica plc. From 1998, he was Company Secretary of Allied Zurich plc, the UK listed holding company of the Zurich Financial Services Group and between 1990 and 1998 he was Assistant Secretary of B A T Industries plc.

Graph removed

Graph removed

## Transformation the first 365 days

Governance. Chairman's letter

# Breathing life into good governance

As an integral part of our Transformation, Harriet Green and her strengthened management team have led a major improvement in governance and culture across the organisation

**Chairman**  
Frank Meysman

Image removed

### Dear Shareholder

In my second year as Chairman, we have continued to make solid progress as we strengthen our governance arrangements. In last year's report, we set out a number of agreed actions following our 2012 Board evaluation. I am pleased to report significant progress against those commitments as outlined here and more fully disclosed on page 58 below.

As an integral part of our Transformation, Harriet Green and her strengthened management team have led a major improvement in governance and culture across the organisation. In particular, they have set the "tone from the top" and, with the support of the Board and the Audit Committee, have taken actions to strengthen risk management and internal control. The Group's new Values and Code of Conduct have been thoroughly embedded throughout the organisation and it is particularly encouraging to see clear evidence of a cultural shift taking place. The Board places great emphasis on this area and receives regular reports as we monitor progress.

As part of the improvements to our risk and audit capabilities, the Board undertook an exercise to determine its risk appetite in relation to both transformational activities and the business as usual environment. The Board's risk appetite, together with the thorough top down and bottom up risk analyses reviewed by the Audit Committee, has resulted in a Combined Assurance Plan that now provides a co-ordinated approach to the Group's risk management and audit activities.

Last year, I made a commitment to further strengthen our Board. Attracting high calibre individuals with the skills and experience we require of our Board members was made possible by the significant progress made in our Transformation by our executive management team and, more recently, by the development of a clear strategy and the execution of our £1.6 billion capital refinancing plan. A key strength of our Board lies in its diversity, across a range of measures, including skills, experience, gender and nationality. I am pleased that our diversity has been further reinforced by the appointments in the past year of Emre Berkin, Carl Symon and Warren Tucker. Carl will become the Senior Independent Director and Warren will become the Chairman of the Remuneration Committee following the Company's AGM in February 2014, when Roger Burnell will retire from the Board.

We have a well-developed induction programme in place to ensure that our new Directors develop an understanding of our businesses. In view of the fast pace of the Transformation, we have also developed an ongoing training programme for the Board with regular presentations given by senior managers from across the organisation. This not only increases the exposure of senior talent to the Board, but also gives the Board presence across the Group.

Throughout the year, Roger Burnell and I engaged with our major shareholders and governance bodies on a number of occasions, mainly in respect of our executive remuneration policy and performance metrics, as we implement our "pay for performance" culture and align remuneration with our Transformation objectives and profitable growth strategy. We are grateful for the feedback given, which has been supportive and constructive, and we will continue to engage on key issues in the future. Our remuneration policy and full details of performance metrics and remuneration payments are fully disclosed in our Remuneration Report, which is prepared for the first time in accordance with the new regulations recently introduced by the UK Government.

We will continue to live and breathe sound principles of good governance in everything we do and build upon the high standards that we have implemented to date.

**Frank Meysman**  
Chairman  
27 November 2013

We will continue to live and breathe sound principles of good governance in everything we do and build upon the high standards that we have implemented to date.

**Transformation** the first 365 days

## Governance. Corporate governance report

**Compliance with the UK Corporate Governance Code**

This report sets out how the Company applied the principles of the UK Corporate Governance Code ("the Code") and the extent to which the Company complied with the provisions of the Code in the year to 30 September 2013. Throughout the year, the Company fully complied with the provisions of the Code, except for Provision B 3.3 in relation to Executive Directors taking on more than one non-executive directorship in a FTSE 100 company and, for part of the year, Provision D 1.5, in relation to Directors' notice or contract periods being set at one year or less. By the end of July 2013, the Company complied with Provision D 1.5 of the Code as the notice period for Harriet Green had reduced to 12 months (further reducing by one month for every month served until our policy position of six months is achieved at the end of January 2014). Explanations in respect of these two Provisions are given in the relevant sections within the Remuneration Report on page 82.

**The Group's business model and strategy**

The Group's business model and strategy are summarised on pages 17 to 24 of this Report.

**The Board of Directors**

The Board is responsible for the long-term success of the Group and must ensure that there is a framework of effective controls which enables risk to be assessed and managed. During the year, there has been a significant focus by the Board and management in the areas of business and financial controls, along with risk identification and management. The Group CEO, CFO and strengthened management team have set the tone from the top and created a strong culture of governance, controls and risk management across the Group. A highly experienced and dedicated team of risk and audit professionals under the leadership of Lee Bradley, Director of Enterprise Risk and Audit, has been recruited to drive a significant improvement agenda and to support management in this important area. More information is given below and in the Risk management section on pages 30 and 31.

In September 2012, the Thomas Cook Leadership Council (see page 26), led by the Group CEO, redefined the Group's Values, Leadership Behaviours and Ways of Working in a major initiative to build a more effective organisation. This initiative, together with the focus on risk and controls and our trust commitments to our people and our stakeholders, were brought together under a new Code of Conduct, drafted by a team of employees at all levels drawn from each of our businesses across the Group. During the year, the Code of Conduct was launched and embedded, with every employee across the Group participating in a thorough training programme to ensure it guides the way our people work as we create a more sustainable future. The Board receives regular reports and monitors progress in this important area.

The Board's governance structure and the roles and activities of its Committees are described on pages 56 to 65.

**Responsibilities of the Board**

The Board is specifically responsible for

- > guiding the Group's strategic aims, leading to its approval of the Group's strategy and its budgetary and business plans
- > approval of significant investments and capital expenditure,
- > approval of annual and half year results and interim management statements, accounting policies and, subject to shareholder approval, the appointment and remuneration of the external auditors
- > approval of the Group's dividend policy and the payment of interim and the recommendation of final dividends,
- > changes to the Group's capital structure and the issue of any securities,
- > establishing and maintaining the Group's risk appetite, system of internal control, governance and approval authorities,
- > monitoring executive performance and succession planning, and
- > reviewing standards of ethics and policy in relation to health, safety, environment, social and community responsibilities

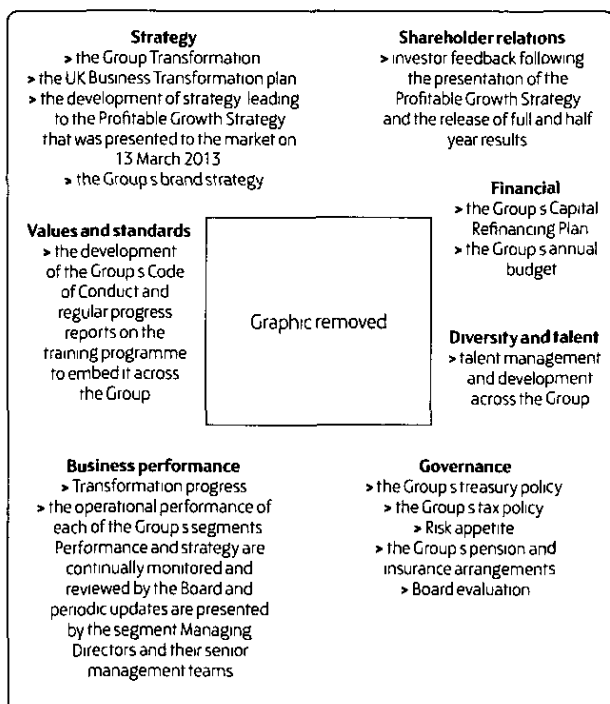
The Thomas Cook Leadership Council, led by the Group CEO, redefined the Group's Values, Leadership Behaviours and Ways of Working in a major initiative to build a more effective organisation.



## Board activity during the year

At each Board meeting, the Group CEO presents a comprehensive update on the Transformation, the strategy and business issues across the Group and the Group CFO presents a detailed analysis of the financial performance, both at Group and segment level. Senior executives below Board level attend relevant parts of Board meetings in order to make presentations on their areas of responsibility. This gives the Board access to a broader group of executives and helps the Directors make assessments of the Group's succession plans. In response to the output from the 2012 Board evaluation, the Board held some of its meetings in the segment locations and conducted in depth reviews of operations and strategy as well as gaining more presence and visibility amongst management and staff. During the year the Board visited the Northern Europe, Continental Europe and Airlines Germany Segments and has plans for the current year to visit the UK Business Segment and one of the Group's primary destinations.

At its meetings during the year, the Board discharged its responsibilities and, in particular, it reviewed



## Board meetings and attendance

The Board and its Committees have regular scheduled meetings throughout the year and supplementary meetings are held as and when necessary. The table below shows the number of scheduled Board and Committee meetings attended by each Director out of the number convened during the time served by each Director on the Board or relevant Committee during the year.

Peter Marks missed one Board meeting and one Nominations Committee meeting (both on the same date). Dawn Airey missed one Board meeting, one Remuneration Committee meeting and one Nominations Committee meeting (all on the same date). These missed meetings were due to unavoidable business commitments and both Peter and Dawn gave input on the agenda items to the Chairman prior to the meetings. The Chairman and each Non-Executive Director have provided assurance to the Board that they remain fully committed to their respective roles and can dedicate sufficient time to meet what is expected of them.

As well as the scheduled meetings, the Directors attended additional Board and Committee meetings (please see the notes below), mainly in respect of the review and approval of the Profitable Growth Strategy that was presented to the market on 13 March 2013, the Capital Refinancing Plan launched on 16 May 2013 and the appointment of Non-Executive Directors. Despite these meetings being held at relatively short notice, attendance levels for each of the Directors was high.

### Current Directors (in office as at 30 September 2013)

Name	Board	Nominations Committee	Audit Committee	Remuneration Committee	Health, Safety & Environmental Committee
Frank Meysman	8/8	4/4	–	–	–
Harriet Green <sup>1</sup>	8/8	3/3	–	–	4/4
Michael Healy	8/8	–	–	–	–
Dawn Airey	7/8	3/4	4/4	4/5	4/4
Emre Berkin <sup>1</sup>	7/7	3/3	–	3/3	2/2
Roger Burnell	8/8	4/4	4/4	5/5	4/4
Peter Marks	7/8	3/4	–	–	4/4
Martine Verluyten	8/8	4/4	4/4	5/5	–

#### Notes

As well as the meetings detailed above, the following additional meetings were held during the year to discuss the issues highlighted on the previous page: Board 8, Nominations Committee 3, Audit Committee 0, Remuneration Committee 2.

<sup>1</sup> Harriet Green joined the Nominations Committee and Emre Berkin joined the Board and the Nominations, Remuneration and Health, Safety & Environmental committees on 1 November 2012.

### Former Directors who served during the year

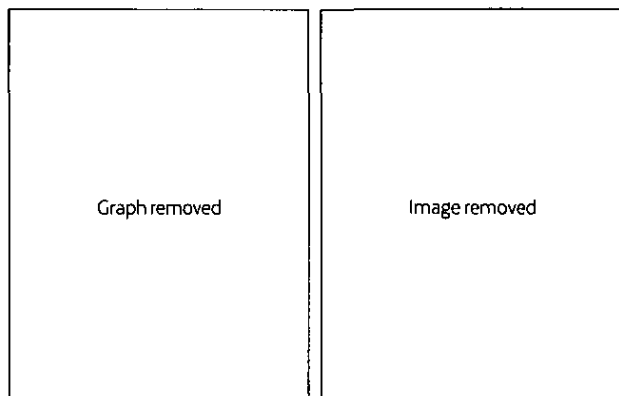
Name	Board	Nominations Committee	Audit Committee	Remuneration Committee	Health, Safety & Environmental Committee
Richard Pennycook <sup>1</sup>	1/1	1/1	–	–	–

#### Notes

<sup>1</sup> Richard Pennycook was appointed on 1 April 2013 and resigned on 5 June 2013 to focus on his executive career.

## Transformation the first 365 days

### Governance Corporate governance report continued



#### Board composition

As at 27 November 2013, the Board comprised the Chairman, two Executive Directors, six Independent Non-Executive Directors and one Non-Executive Director. Biographical details of all Directors can be found on pages 50 and 51 and on the Company's corporate website at [www.thomascookgroup.com](http://www.thomascookgroup.com)

#### The Chairman

Frank Meysman was the Chairman throughout the year.

The roles of the Chairman and Group CEO are separate and distinct. There is a Board-approved Division of Responsibilities, which clearly sets out in writing their respective responsibilities. This document can be found on the Company's corporate website at [www.thomascookgroup.com](http://www.thomascookgroup.com)

#### The Senior Independent Director

Roger Burnell was the Senior Independent Director throughout the year and, as such, is available to shareholders should they have concerns that cannot be resolved through the normal channels involving the Executive Directors or the Chairman. Carl Symon, who was appointed to the Board on 3 October 2013, will become the Senior Independent Director following the AGM in February 2014, when Roger Burnell will retire from the Board.

#### Changes to the Board

The following individuals were appointed to the Board as Independent Non-Executive Directors on the dates set alongside their names:

- > Emre Berkin – 1 November 2012
- > Carl Symon and Warren Tucker – 3 October 2013

Richard Pennycook was also appointed to the Board as an Independent Non-Executive Director on 1 April 2013, but resigned on 5 June 2013 to focus on his executive career.

The search, selection and appointment process for Non-Executive Directors is fully described in the section on the Nominations Committee on pages 62 and 63.

#### Board induction and training

An induction programme tailored to meet the needs of individual Directors is provided for each new Director. Overall, the aim of the induction programme is to introduce new Directors to the Group's business, its operations and its governance arrangements. Such inductions typically include meetings with senior management visits to the Company's business segments where they receive a thorough briefing on the business and meet with the management team, and the receipt of presentations on other key business areas and relevant documentation. Individual induction requirements are monitored by the Chairman, with the support of the Group Company Secretary, to ensure that new and recently appointed Directors gain sufficient knowledge about the Group to enable them to contribute to the Board's deliberations as swiftly as possible. As a number of new Directors have joined the Board in the past two years, there has been a high level of induction activity. New Directors also go on a destination visit during which time they meet with in-destination staff and are taken through every aspect of the customer experience. The induction content and process has evolved significantly as we build on the experience of inducting each new Director. We are now using the benefit of that experience for the benefit of our longer-serving Directors, by giving them the opportunity to accompany and participate in any aspect that they feel would further enhance their knowledge and understanding of the Group.

The Board has a programme for holding some of its meetings at the business segments, where, in addition to its normal business, the Board will focus on the strategy and operations of that segment and meet with management and staff. In October 2012, the Board held its meeting at the main offices of the Northern Europe segment and in March 2013, the Board held its meeting in Germany where it received presentations on, and met management and staff of, the Group's Continental Europe and Airlines Germany businesses. At other Board meetings and, where appropriate, Committee meetings, the Directors receive updates and presentations on developments and changes.

The induction content and process has evolved significantly as we build on the experience of inducting each new Director. We are now using the benefit of that experience for the benefit of our longer-serving Directors, by giving them the opportunity to accompany and participate in any aspect that they feel would further enhance their knowledge and understanding of the Group.

to the business and to the legislative and regulatory environments. In addition to the in-depth presentations on the Company's businesses, the Board was also provided during the year with

- > a comprehensive update on our web-based distribution transformation, and
- > the developments to the end-to-end customer service experience in our UK business.

The provision of additional training presentations has been further developed. In response to the 2013 Board evaluation, an ongoing training programme for the Board with regular presentations given by senior managers from across the organisation has been established for the balance of 2013 and throughout 2014. In addition to the benefit of the training given, this programme also increases the exposure of senior talent to the Board and gives the Board presence across the Group.

### Director independence

At its September 2013 Board meeting, as part of its annual review of corporate governance against the Code, the Board considered the independence of the Non-Executive Directors against the criteria specified in the Code and determined that Dawn Airey, Emre Berkin, Roger Burnell and Martine Verluysen were independent. When approving their appointments, the Board also determined that each of the Non-Executive Directors who joined the Board during the year was independent.

The Board recognises that Peter Marks, who held the position of Group Chief Executive of The Co-operative Group (which is a partner in the Group's UK retail joint venture) until his retirement in May 2013, is not independent.

### Directors' conflicts of interest

From 1 October 2008, the Companies Act codified the Directors' duty to avoid a situation in which they have, or can have, an interest that conflicts, or possibly may conflict, with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other Directors.

The Board has established a set of guiding principles on managing conflicts and has agreed a process to identify and authorise conflicts. As part of that process, it has also agreed that the Nominations Committee should review the authorised conflicts every six months or more frequently if a new potential conflict arises for an existing Director. The Nominations Committee reviews the interests of candidates prior to making recommendations for the appointment of new Directors. The Nominations Committee and Board applied the above principles and process throughout the year to 30 September 2013 and confirm that these have operated effectively. When the Board authorised the conflict relating to Peter Marks in relation to the Company's UK retail joint venture with The Co-operative Group, it did so on the condition that Peter would not receive Board papers in respect of, or be involved in, decisions about the Company's UK retail joint venture.

### Re-appointment of Directors

In accordance with the Code and the Company's Articles of Association, all Directors are subject to election by shareholders. At the AGM held in February 2013, all the Directors were submitted for election/re-election and the Board has agreed that the Directors will continue to be subject to annual election in the future. Non-Executive Directors are initially appointed for a three-year term, subject to annual election by shareholders and, subject to rigorous review by the Nominations Committee and continued annual re-election by shareholders, can serve up to a maximum of three such terms. At the AGM to be held on 20 February 2014, Roger Burnell will not stand for re-election and, accordingly, he will retire from the Board at the conclusion of that meeting.

### Operation of the Board

Throughout the year, a fully encrypted electronic portal system was operated, which enabled Board and Committee papers to be delivered securely to the Directors. This enabled a faster and more secure distribution of information, accessed using electronic tablets, and reduced resource usage. Directors were provided between meetings with relevant information on matters affecting the business. Such updates were carried out by a variety of methods, including conference calls amongst the full Board or between the Chairman and/or the Group CEO and the Non-Executive Directors, and by way of the Group Company Secretary circulating papers and updates on relevant issues electronically.

The Group Company Secretary, who was appointed by the Board, is responsible for advising and supporting the Chairman and the Board on corporate governance matters as well as ensuring that there is a smooth flow of information to enable effective decision making. All Directors have access to the advice and services of the Group Company Secretary and the Group General Counsel and, through them, have access to independent professional advice in respect of their duties, at the Company's expense. The Group Company Secretary acts as secretary to the Board, the Finance & Administration Committee, the Disclosure Committee, the Audit Committee, the Nominations Committee and the Remuneration Committee. The Deputy Company Secretary acts as secretary to the Health, Safety & Environmental Committee.

In accordance with its Articles, the Company has granted a qualifying third party indemnity to the extent permitted by law to each Director and the Group Company Secretary. The Company also maintains Directors' and Officers' liability insurance.

The provision of additional training presentations has been further developed. In response to the 2013 Board evaluation, an ongoing training programme for the Board with regular presentations has been established.

## Transformation the first 365 days

### Governance Corporate governance report continued

#### Our Board evaluation process

1

The Chairman and the Group Company Secretary discuss and agree the scope of the evaluation and develop a comprehensive questionnaire

2

Directors complete their questionnaire and meet individually with the Chairman to discuss

3

A report of the findings from the questionnaires and the one-to-one discussions is prepared by the Chairman and the Group Company Secretary and includes a number of recommendations for discussion by the Board

4

The report of the findings and the recommendations is discussed by the Board, which agrees an action plan for the year ahead

5

The action plan is continually monitored by the Chairman and Group Company Secretary with regular update reports to the Board

#### Board evaluation

The Board recognises the benefit of a thorough Board and Committee evaluation process leading to action to improve its effectiveness future composition and focus

A thorough evaluation of the Board and its Committees was conducted during the year. This was facilitated by the Group Company Secretary, under the direction of the Chairman. The process involved each of the Directors completing a high level questionnaire, which was structured to provide an introduction for a more in-depth and comprehensive discussion between the Chairman and each of the Board members. Such meetings allowed each Director to express their perspectives of the Board's effectiveness and performance, as well as to highlight areas in which they wished to see improvement. The output from the above was compiled by the Group Company Secretary and the key themes and issues, together with a range of recommendations, were presented in the first instance to the Chairman and then to the Board for consideration and debate.

The evaluation covered a range of areas including the breadth of skills and experience on the Board. The output from the evaluation reinforced the requirements previously specified in the candidate profile in respect of the search for additional Board members. In addition, the outputs included the need to maintain an ongoing comprehensive Board training programme to keep pace with the transformational activities, a request for increased market information and intelligence, the continued review and development

of strategy and increased opportunities to develop relationships amongst Board members. The Board has agreed an action plan in respect of each of these outputs and progress is being monitored by the Chairman, with the support of the Group Company Secretary, and reported regularly to the Board. Progress will be disclosed in the 2014 Governance Report.

The Board agreed that real progress had been made in respect of Board and Committee effectiveness during a challenging year and that all the actions arising from the 2012 Board evaluation had been dealt with in full to a high standard, but welcomed the actions from the 2013 evaluation in a move to higher standards. The tables below show the outputs, agreed actions and achievements against the 2012 and 2013 Board evaluations. The Board has agreed that the effectiveness evaluation will be externally facilitated in 2014.

Separately, the Non-Executive Directors, under the leadership of the Senior Independent Director and with input from the Executive Directors, conducted an evaluation of the Chairman. The outputs from that evaluation were debated by the Board in the absence of the Chairman and feedback was given to him by the Senior Independent Director.

The Company's performance management system applies to management at all levels across the Group. The individual performance of the Executive Directors is reviewed separately by the Chairman and the Remuneration Committee.

#### Outputs from 2012 evaluation

**A range of skills and experience, including travel, international, technology and UK plc, required of new Non-Executive Directors**

**Board needs to have greater visibility and connection with the businesses to build a mutual understanding of roles and challenges**

**Need for improved financial information to the Group and the Board**

**Board needs to devote more time to the development of strategy and succession and talent management**

**Board needs improved understanding of risk identification and management**

#### Agreed action in 2012 and delivered in 2012/13

Included in the candidate profile for the search for additional Non-Executive Directors. Focus for international search and selection firm. Three additional high-calibre Non-Executive Directors appointed in the past year.

Board agreed a programme for holding some of its meetings at the business segments, where it will focus on the strategy and operations of that segment and will meet with management and staff. Programme carried out in 2012/13 and will continue throughout 2013/14.

Board induction programme ensures that new appointees visit each of the businesses shortly after joining. Existing Directors given the opportunity to undergo induction with new Directors. Programme carried out in 2012/13 and will continue throughout 2013/14.

New Group CFO and strengthened Finance Team have significantly improved financial reporting and forecasting in 2012/13.

Time allocated for strategy at each Board meeting. The Group CEO has driven the people agenda focusing on assessment, development, succession, performance management, engagement and recognition for high performance. New Chief People Officer appointed in 2013. Succession and talent management presented to the Board in 2013. Commitment fully delivered in 2012/13.

A highly experienced new Director of Enterprise Risk and Audit was appointed on 29 October 2012 to drive an increased focus on risk and controls across the Group and improved reporting to the Board and the Audit Committee. He reports directly to the Group CFO and through to the Audit Committee. Significant improvement in risk identification and management delivered in 2012/13.

## Outputs from 2013 evaluation

## Action agreed in 2013

### Strengthen the Board with the appointment of additional Non-Executive Directors to meet succession requirements

Two Non-Executive Directors appointed subsequent to the 2013 Board evaluation, one of whom will be appointed Chairman of the Remuneration Committee and the other who will be appointed as the Senior Independent Director following the AGM in February 2014, when Roger Burnell will retire from the Board

### Continued recruitment of high calibre management and ongoing talent management and development being regularly reported to the Board

Ongoing programme in place with regular reporting to the Board. Senior management exposure to the Board as described on pages 55 to 57

### Requirement for an ongoing comprehensive Board training programme to keep pace with the transformational activities

Ongoing programme developed and immediately implemented

### Request for increased market information and intelligence

Increased information to be provided over time

### Continued review and development of strategy

Built into the Board's future agenda

### Opportunity to develop relationships amongst Board members

Directors to group together for initial induction and ongoing training, where possible. Informal occasions when the Board can be together without management present are being arranged

## The Board and its primary committees

### Board

Chairman, Group CEO, Group CFO and 7 Non-Executive Directors

Graphic removed

The Board has a schedule of matters reserved for its approval and has a formal structure of delegated authority whereby specified aspects of management and control of the Group have been delegated to the Group CEO, the Group CFO, business segments and the Board's Committees. The Board has agreed the terms of reference for the Audit, Remuneration, Nominations, Risks and Disclosures, and Health, Safety & Environmental Committees and the Division of Responsibilities between the Chairman and the Group CEO.

### Nominations Committee

Chairman, Group CEO and 4 Independent Non-Executive Directors

Committee report on page 62

### Remuneration Committee

4 Independent Non-Executive Directors

Committee report on page 65

### Health, Safety & Environmental Committee

Group CEO and 4 Non-Executive Directors

Committee report on page 64

### Audit Committee

3 Independent Non-Executive Directors

Committee report on page 60

The schedule of matters reserved, the terms of reference of each of the Board's Committees and the Division of Responsibilities between the Chairman and the Group CEO, are available on request and on the Company's website at [www.thomascookgroup.com](http://www.thomascookgroup.com). The powers of the Directors are set out in the Company's Articles of Association. These are also available on the Company's website.

The papers in respect of the Audit, Remuneration, Nominations and Health, Safety & Environmental Committees are circulated to all the Non-Executive Directors, regardless of Committee membership. Major decisions taken under the Group's Delegation of Authority are reported to the next Board meeting.

## Group Executive Committee

Throughout the year, the Group CEO regularly held meetings amongst her Direct Reports to discuss a range of issues in relation to the strategic and operational development and performance of the businesses. As disclosed in the People section (on pages 25 to 28 above), external recruitment and the development from within the organisation of world-class talented leaders has been a priority during the year. Building on the success in this area, the CEO formed the Group Executive Committee on 1 November 2013. The CEO's Direct Reports team and the Group Executive Committee that succeeded it comprise the most senior business leaders and Group function heads and, like the Thomas Cook Leadership Council, was both culturally and gender diverse reflecting the wide range of diversity amongst employees across the Group.

## Thomas Cook Leadership Council

The Group CEO has also established the Thomas Cook Leadership Council ("TCLC"), comprising the top 130 leaders across the Group. The TCLC meets four times a year to review performance and help develop the Group's strategy.

**Transformation** the first 365 days

## Governance Corporate governance report continued

**Audit Committee**

The main focus of the Audit Committee during the year has been to support and oversee the significant improvement led by executive management to the Group's risk management and internal control arrangements

**Chairman**  
Martine Verluyten\*

**Meetings**  
Four

**Other members**

Dawn Airey

Roger Burnell

Directors biographies  
on page 50

Image removed

Graphic removed

**Meetings also regularly attended by**

The Chairman and the other Non-Executive Directors, Harriet Green (Group CEO), Michael Healy (Group CFO), Craig Stoehr (Group General Counsel), Lee Bradley (Director of Enterprise Risk and Audit), Derek Woodward (Group Company Secretary), Gavin Manson (Group Head of Financial Reporting) and PricewaterhouseCoopers LLP ("PwC")

**Composition of the Committee**

During the year, Richard Pennycook was appointed a member on 1 April 2013 until his resignation from the Board on 5 June 2013

\*Martine Verluyten is considered by the Board to have recent and relevant financial experience as required by the Code

**Role of the Committee**

The Board has delegated to the Committee responsibility for overseeing the financial reporting, internal risk management and control functions and for making recommendations to the Board in relation to the appointment of the Company's internal and external auditors

In accordance with its terms of reference, the Committee, which reports its findings to the Board, is authorised to

- monitor the integrity of the annual and half-year results and interim management statements including a review of the significant financial reporting judgements contained in them
- review the Company's internal financial controls and internal control and risk management systems,
- monitor and review the effectiveness of the Company's internal audit function,
- establish and oversee the Company's relationship with its external auditors, including the monitoring of their independence, and
- monitor matters raised pursuant to the Company's "whistleblowing" arrangements

To enable it to carry out its duties and responsibilities effectively the Committee relies on information and support from management across the business. The full terms of reference of the Committee are available at [www.thomascookgroup.com](http://www.thomascookgroup.com) or from the Group Company Secretary at the registered office

**Principal activities during the year**

The main focus of the Audit Committee during the year has been to support and oversee the significant improvement led by executive management to the Group's risk management and internal control arrangements. In that regard the Committee welcomed the appointment of the Director of Enterprise Risk and Audit, who in turn has recruited a highly experienced and dedicated team of risk and audit professionals to support management in this important area. The Finance Function has also been strengthened to improve financial control. The significantly increased activity in respect of risk management controls and internal audit for both transformational and business as usual activities has been summarised in comprehensive reports that have been presented to and reviewed by the Committee at each of its meetings during the year. This activity together with reports from the external auditors has supported the Audit Committee in providing its advice to the Board in respect of the effectiveness of internal control (see section headed "Risk management and internal control" on page 66 below). At the end of two of its meetings during the year the Committee (and also those Non-Executive Directors who are not on the Committee) met with the Director of Enterprise Risk and Audit and the external auditors in the absence of management.

## Committee activities

In addition to focus on risk management, controls and internal audit described opposite, the Committee has discharged its responsibilities during the year and has reviewed

Financial	Governance
<ul style="list-style-type: none"> <li>&gt; the full and half year results (including accounting issues and judgements) and the interim management statements issued during the year</li> <li>&gt; information in support of the statements in relation to going concern and disclosure of information to the auditors</li> <li>&gt; the annual work plan for each of the internal audit team and the external auditors</li> </ul>	<ul style="list-style-type: none"> <li>&gt; the prevention, detection and reporting of fraud and the Group's anti-fraud and ethics policies</li> <li>&gt; proposals for engaging the external auditors to carry out non-audit related work (see below)</li> <li>&gt; the Committee's work plan for the year ahead and a review of historic activity against the Committee's terms of reference</li> <li>&gt; the effectiveness of the external audit process and a proposal in respect of the re-election of the external auditors (see external auditors section below)</li> </ul>

Graphic removed

Within its terms of reference, the Committee is authorised to monitor the integrity of the annual and half-year results and interim management statements, including a review of the significant financial reporting judgements contained in them. At its meeting in November 2013, the Committee reviewed a comprehensive paper prepared by the Group Head of Financial Reporting, which set out the Group's accounting policies and basis of preparation, gave consideration to a number of key disclosure considerations, including going concern, separately disclosed items and like-for-like analysis matters arising in the preparation of the Group accounts, and the impact of new accounting developments. The Audit Committee also reviewed a paper prepared by the external auditors, which included the significant reporting and accounting matters. Both papers were reviewed and discussed by the Audit Committee. The Committee pays particular attention to matters that it considers to be important by virtue of their impact on the Group results and remuneration of senior management or the level of complexity, judgement or estimation in their application in preparation of the Group's Financial Statements. The significant issues considered by the Audit Committee were as follows

### Significant issue considered by the Committee

**Going Concern** The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis

The Committee considered papers prepared by management and taking into account the external auditors' review of these papers and their assumptions concluded that management's recommendation to prepare accounts on a going concern basis was appropriate

**The Group's recapitalisation and treatment of costs** The appropriate accounting treatment of the costs and fees of £73 million in relation to the completion of the Group's Capital Refinancing Plan in June 2013

The Committee reviewed a paper prepared by management on the proposed accounting treatment of costs associated with the Group's recapitalisation. Having reviewed the paper, the Committee was comfortable with the treatment proposed and subsequently adopted

**Impairment and deferred tax** In view of the Group's losses in recent years the Committee considered whether there was a need to impair certain asset values including goodwill and the reasonableness of the Group's recognition of deferred tax assets

The Committee considered a paper presenting management's intended approach and having taken input from the auditors, agreed with management's proposals

**Separately disclosed items** The Group has an established policy of separately disclosing items that are either exceptional or detract from the reader's understanding of the underlying performance of the Group

The Committee considered management's presentation of separately disclosed items and in particular items relating to the Group's Transformation and certain non-cash finance allocations. Having considered the matter, the Committee agreed to adopt management's proposed presentation

**Aircraft lease accounting and provisioning** The Group holds a number of its aircraft fleet on lease from third parties. The designation of aircraft leases as operating leases or finance leases impacts on several aspects of reported results

The Committee considered a paper prepared by management dealing with the impacts of lease accounting and related aircraft maintenance provisions and accepted management's proposed treatment

**Control environment during Transformation** The Group is currently engaged in a fundamental Transformation encompassing most aspects of its activities

The Committee considered the broader risks associated with this Transformation as well as focusing on the operation of the Group's control environment throughout the Transformation period. The Committee also considered a report by management on the operation of financial and non-financial controls throughout the year

**Disposal of Thomas Cook North America** In the year the Group disposed of its businesses in North America

The Committee considered a proposal by management to account for its North America businesses under IFRS 5 as a discontinued operation and agreed with the proposed treatment

## External auditors

A policy is in place which requires all material non-audit work proposed to be carried out by the external auditors to be pre-authorised by the Committee in order to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity. The policy, which is appended as a schedule to the Audit Committee's terms of reference, is published on the Company's website at [www.thomascookgroup.com](http://www.thomascookgroup.com). An analysis of the fees earned by the Group's auditors for audit and non-audit services is disclosed in Note 9 to the financial statements. PwC were appointed as the sole auditors to the Group in 2008 and since that date have complied with the partner rotation requirement set out in the Ethical Standards for auditors. Paul Cragg, a Partner of PwC, was newly appointed Senior Statutory Auditor following the re-appointment of PwC by shareholders at the AGM held on 7 February 2013. PwC have

confirmed their independence as auditors of the Company in a letter addressed to the Directors

At its meeting in November 2013, the Audit Committee reviewed the effectiveness of the external audit process. This included reviewing comprehensive papers from both management and the external auditors, which set out the planning and execution of the conduct of the audit. The Audit Committee then held a meeting with the external auditors in the absence of management to discuss further. Upon the recommendation of the Audit Committee, PwC will be proposed for re-election by shareholders at the AGM to be held on 20 February 2014. In reaching its decision to propose PwC for re-election, the Audit Committee took into account the effectiveness of the external audit process, the length of tenure of PwC as auditors and the objectivity and independence of the external auditor

**Transformation** the first 365 days

## Governance Corporate governance report continued

**Nominations Committee**

The Board is strengthened  
by the appointment of  
three independent  
Non-Executive Directors

**Chairman**  
Frank Meysman

Image removed

**Meetings**  
Four

**Other members**

Dawn Airey, Emre Berkin, Roger  
Burnell, Harnet Green and Martine  
Verluyten

Graphic  
removed

Directors biographies  
on page 50

**Meetings also regularly attended by**

The other Non-Executive Directors Derek Woodward  
(Group Company Secretary) and Craig Stoebr (Group  
General Counsel)

**Composition of the Committee**

A majority of the members of the Committee are  
Independent Non-Executive Directors. Emre Berkin  
and Harnet Green joined the Committee on  
1 November 2012

**Role of the Committee**

The Board has delegated to the Committee responsibility for reviewing and proposing appointments to the Board and for recommending any other changes to the composition of the Board or its Committees. The principal responsibility of the Committee is to make recommendations to the Board on all new appointments to the Board, as well as Board balance and composition. The Committee ensures that there is clarity in respect of the role description and capabilities required for such appointments. The Committee is also responsible for reviewing, at least every six months, or more frequently if required, the Directors' potential conflicts of interest and for making recommendations to the Board in respect of authorising such matters. The full terms of reference of the Committee are available at [www.thomascookgroup.com](http://www.thomascookgroup.com) or from the Group Company Secretary at the registered office.

**Principal activities during the year**

At its meetings during the year, the Committee discharged its responsibilities as listed above and in particular

**Committee activities**

Graphic  
removed

**Governance**

- > considered the re-appointment of the Directors before making a recommendation to the Board regarding their re-election at the 2013 AGM
- > conducted a thorough process and made recommendations to the Board to appoint additional Non-Executive Directors in order to strengthen the Board
- > considered Directors' potential conflicts of interest (see page 57)



## Board appointments policy

Appointments to the Board are made on merit against objective criteria and with due regard for the benefits of diversity on the Board. This process is led by the Committee which, after evaluating the balance of skills, knowledge and experience of each Director, makes recommendations to the Board. The Board appointments policy reinforces the Board's principle that appointments are made on merit in line with its current and future requirements, and reflect the UK listing and international activity of the Group. The policy also recognises the benefits of diversity including gender diversity. Appointments during the course of the year have been in line with that policy and have reinforced the diverse composition of the Board. A table illustrating the diversity of the Board is shown on page 56. The Board endorses the aims of the Davies' Report entitled 'Women on Boards'. A copy of the Group's Board appointments policy can be found on our website at [www.thomascookgroup.com](http://www.thomascookgroup.com).

## Non-Executive appointments

One of the key areas of focus in the 2012 Board effectiveness review (re-affirmed in the 2013 Board effectiveness review) was to evaluate the breadth of skills and experience on the Board. The output from that evaluation (see page 58) helped shape the candidate profile for the search for additional Non-Executive Directors. Egon Zehnder\*, an international search and selection firm, was appointed to assist the Chairman to identify a range of suitable candidates for review by the Nominations Committee. As a result of the ongoing process, Emre Berkin was appointed to the Board on 1 November 2012, Richard Pennycook was appointed on 1 April 2013 (although he subsequently resigned on 5 June 2013 to focus on his executive career) and Carl Symon and Warren Tucker were appointed on 3 October 2013. The Chairman and the Committee will continue their work in the current year to continue to monitor and develop the Board's succession plans. The Committee will also support the Board with a review of Committee memberships, once the newly appointed Directors have completed their induction programmes.

\*Egon Zehnder does not carry out any other work for the Group.

One of the key areas of focus in the 2012 Board effectiveness review (re-affirmed in the 2013 Board effectiveness review) was to evaluate the breadth of skills and experience on the Board. The output from that evaluation helped shape the candidate profile for the search for additional Non-Executive Directors.

1  
Strategic report

2  
Directors' report

3  
Financial statements

## Transformation the first 365 days

### Governance Corporate governance report continued

#### Health, Safety & Environmental Committee

The Health, Safety & Environmental Committee has overseen a wide range of improvements, including the steps taken to embed our Code of Conduct across the Group

**Chairman**  
Peter Marks

**Meetings**  
Four

#### Other members

Dawn Airey, Emre Berkin, Roger Burnell and Harriet Green

Directors biographies  
on page 50

#### Meetings also regularly attended by

The other Non-Executive Directors: Lee Bradley (Director of Enterprise Risk and Audit), Steve Solomon (Director Group Aviation Safety, Compliance and Security), Andy Cooper (Director of Government and External Affairs), Derek Woodward (Group Company Secretary), Craig Stoehr (Group General Counsel) and Beth Horlock (Deputy Company Secretary)

#### Composition of the Committee

Dawn Airey, Roger Burnell and Harriet Green were members of the Committee throughout the year. Peter Marks was Chairman of the Committee throughout the year. Emre Berkin was appointed as a member of the Committee on 1 April 2013.

#### Role of the Committee

The Board has delegated to the Committee responsibility to review, develop and oversee consistent policy, standards and procedures for managing health, safety and environmental risks to the Group's business. It is also responsible for the review and oversight of compliance with relevant legislation and regulation relating to health, safety and the environment across the Group.

The full terms of reference of the Committee are available at [www.thomascookgroup.com](http://www.thomascookgroup.com) or from the Group Company Secretary at the registered office.

#### Principal activities during the year

At its meetings during the year, the Committee discharged its responsibilities as listed above and in particular reviewed, monitored and agreed:

#### Committee activities

- |  |  |
|--|--|
| <b>External affairs</b> <ul style="list-style-type: none"> <li>&gt; the Group-wide child protection policy and implementation plan</li> <li>&gt; progress in relation to the Group's programme of government affairs</li> </ul>  | <b>Stakeholder relations</b> <ul style="list-style-type: none"> <li>&gt; the Group's Sustainability Reports</li> </ul>   |
| <b>Values and standards</b> <ul style="list-style-type: none"> <li>&gt; the roll out of the Group's Code of Conduct</li> </ul>   | <b>Environmental</b> <ul style="list-style-type: none"> <li>&gt; transfers and transport</li> <li>&gt; a number of health and safety policies including the Group's environmental and sustainability policies</li> </ul> |
| <b>Health and safety</b> <ul style="list-style-type: none"> <li>&gt; the Group's health and safety and sustainability strategies (also covering the Group's hotel quality assurance programme) including performance against targets</li> <li>&gt; future health and safety performance targets</li> <li>&gt; the proposed outsourcing of customer health and safety data capture, risk assessment and data storage functions</li> <li>&gt; overseas excursion safety policy compliance               <ul style="list-style-type: none"> <li>&gt; employee safety regulations</li> <li>&gt; the Group's airline safety</li> </ul> </li> <li>&gt; key health and safety risks facing the Group and the mitigating actions taken               <ul style="list-style-type: none"> <li>&gt; reviewed transfers and transport</li> <li>&gt; the Group Aviation drug and alcohol policy</li> <li>&gt; a crisis management test</li> </ul> </li> </ul> |  |

The Group's Sustainability Report is available on [www.thomascookgroup.com/sustainability](http://www.thomascookgroup.com/sustainability) and contains the Group's health & safety and environmental policies, an explanation of how Thomas Cook manages sustainability and progress against targets.

A summary of the approach and the Group's performance in relation to sustainability is contained on pages 47 to 49.

## Remuneration Committee

The Remuneration Committee has aligned executive pay arrangements with our Transformation and profitable growth strategy

**Chairman**  
Roger Burnell

**Meetings**  
Five

### Other members

Dawn Airey, Emre Berkin and Martine Verluyten

Directors biographies  
on page 50

### Meetings also regularly attended by

Frank Meysman (Chairman), Harriet Green (Group CEO)\* Peter Marks (Non Executive Director) Sandra Campopiano (Chief People Officer), Judith Mackenzie (Group Head of Performance and Reward), Derek Woodward (Group Company Secretary) and Craig Stoehr (Group General Counsel)

\*Harriet Green does not attend in respect of matters relating to her remuneration

### Composition of the Committee

All members of the Committee are Independent Non-Executive Directors. Emre Berkin was appointed as a member of the Committee on 1 April 2013

## Principal activities during the year

During the year, the Committee made significant progress implementing best practice as it pursues its "Pay for Performance" policy. In this connection, the Chairman and the Chairman of the Committee have conducted extensive consultations with major shareholders and governance bodies. A report detailing the composition, responsibilities and work carried out by the Remuneration Committee during the year, including an explanation of how it applies the Principles of the Code in respect of Executive Directors' remuneration, is included within the Remuneration Report on pages 70 to 87.

## Finance & Administration Committee

To facilitate swift and efficient operational management decisions, the Board has established the Finance & Administration Committee (comprising any two Directors, one of whom must be an Executive Director) which has delegated authority within clearly identified parameters in relation to day-to-day financing and administrative matters.

## Risks and Disclosures Committee

The Board has established a Risks and Disclosures Committee, which is responsible for implementing and monitoring systems and controls in respect of the management of inside information and the disclosure of such information to the market in accordance with the Company's obligations under the UK Listing Authority's Disclosure and Transparency Rules. The Committee meets regularly during the year to consider the Group's activities and risks, having received inputs from the Risk Matters Group, against its disclosure obligations and to review all results announcements following certification from individual executives from across the businesses. The Committee comprises the Group CEO, who is the Chairman, the Group CFO, the Director of Enterprise Risk and Audit, the Group General Counsel and the Group Company Secretary. Other attendees include senior managers from Group Finance and Investor Relations.

## Transformation the first 365 days

### Governance Corporate governance report continued

#### Shareholder communication and engagement

The Board promotes open communication with shareholders. This is formalised within the framework of an investor relations programme conducted by the Group CEO, the Group CFO and the Investor Relations team. The programme included the presentation of preliminary and half-year results, which can be accessed on the Thomas Cook Group website at [www.thomascookgroup.com](http://www.thomascookgroup.com) along with financial reports, interim management statements, other market announcements and trading updates. The management team conducts regular meetings with institutional investors and welcomes the dialogue that this enables with shareholders.

During the year, in addition to their regular ongoing programme of investor meetings, the Group CEO and Group CFO had an extensive series of meetings with shareholders following the presentation of the Company's new strategy to the market on 13 March 2013 and with existing and prospective investors in respect of the Company's Capital Refinancing Plan that was completed in June 2013. The Company makes every effort to ascertain investor perceptions of the Company and regular reports of investor and analyst feedback are provided to the Board. Additionally, the Board responds to ad-hoc requests for information and all shareholders are entitled to attend the Annual General Meeting. In addition to its AGM in February 2013, the Company also held a general meeting in June 2013, to gain approval for the share placing and rights issue as part of its Capital Refinancing Plan. Shareholders are given the opportunity to lodge their votes by way of proxy and/or to attend such meetings in person where they have the opportunity to ask questions of the Board including the chairs of the Board Committees, vote by way of a poll and meet informally with the Directors to discuss any issues they may wish to raise.

During the year, both the Chairman of the Board and the Chairman of the Remuneration Committee met with a number of major institutional shareholders to discuss governance issues in general and, with those institutional investors who had voted against the Remuneration Report at the 2013 AGM, to listen to their reasons why they had exercised their vote in that way. As a result of the feedback received at those meetings, the Remuneration Committee agreed to change the approach to measuring achievement against the share price performance targets in respect of future awards under the Performance Share Plan.

This is explained in more detail in the Remuneration Report on pages 70 to 87.

Frank Meysman and Roger Burnell, the Senior Independent Director and Chairman of the Remuneration Committee, had ongoing dialogue with shareholders in respect of Executive remuneration matters. Between June and September 2013, they conducted a wide scale engagement with a large number of the Company's major institutional shareholders (representing over 50% of the Company's shares in issue) and governance bodies to hear their views on proposed performance targets for both the 2012 and then forthcoming 2013 awards to the Executive Directors under the Performance Share Plan and proposed amendments to the Company's executive Remuneration Policy, presented in line with the new Directors Remuneration Regulations. These meetings were both supportive and constructive and the Board and the Remuneration Committee were briefed on the feedback from the above discussions. The views expressed by shareholders were taken into account when finalising executive remuneration arrangements. The matters covered by the consultation are reported in the Remuneration Report on pages 70 to 87.

In line with the authority given at its 2008 AGM, the Company uses its website and email as the primary means of communication with its shareholders. This arrangement provides significant benefits for shareholders and the Company in terms of timeliness of information, reduced environmental impact and cost. Shareholders may still opt to receive their communications in a paper format. The Company's corporate website contains information for shareholders, including share price information and news releases. It can be found at [www.thomascookgroup.com](http://www.thomascookgroup.com).

#### Risk management and internal control

During the year, there has been significant progress made in the area of risk management and internal control. This has been led with a distinct "tone from the top" by the Group CEO and her strengthened management team, with the support of the Board and the Audit Committee, to drive a step change improvement in the overall governance framework and culture throughout the organisation. A highly experienced and dedicated team of risk and audit professionals under the leadership of Lee Bradley, who was appointed as Director of Enterprise Risk and Audit in October 2012, has been recruited to drive a significant improvement agenda and to support management in this important area. Furthermore, high calibre professionals have also been recruited into the Group and Segment Finance teams to improve cash management and forecasting and financial controls.

The Group's new approach to risk management and internal control is more fully described in the Risk management section on pages 30 and 31.

The management team conducts regular meetings with institutional investors and welcomes the dialogue that this enables with shareholders.

The Board recognises its ultimate accountability for maintaining an effective system of internal control and risk management that is appropriate in relation to both the scope and the nature of the Group's activities and complies with the Turnbull Committee Guidance on the UK Corporate Governance Code (the "Turnbull Guidance") and has approved the framework and the standards implemented. During the year, the Board and the Audit Committee have reviewed the reports of the Director of Enterprise Risk and Audit, which included the results from wholesale top down and bottom up risk reviews involving management across the Group. The Board has also undertaken a detailed exercise to consider its risk appetite. These activities have resulted in a Combined Assurance Plan, which will enable a risk based approach to the ongoing internal audit and assurance programme.

This framework will be developed and standards improved as the new approach to risk management and internal control is further embedded across the Group.

Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable, but not absolute, assurance against material misstatement or loss. The Board has delegated responsibility for the implementation of the Group risk management policy to the Risk Matters Group ("RMG"), which is chaired by the Director of Enterprise Risk and Audit and comprises senior executives from across the Group. The Chair of the Audit Committee is invited to each of the RMG meetings and attends regularly.

### Risk appetite

During the year, the Board undertook a detailed exercise to consider its risk appetite in a number of key areas for the business. The results of this review indicate the relative appetite of the Board across the risk factors and behaviours.

The Board is aligned on the relative risks and has agreed the appetite for risk taking for Transformation initiatives and operational delivery is entrepreneurial, this position aligns with the strategic aims of the Transformation programme and targets set for the business. The Board has a low tolerance for Health and Safety, Reputation and Regulatory Compliance risks. In all other aspects, the Board takes a balanced view on risk taking.

It is the intent of the Board to use the results of this review to support its ongoing decision making and risk mitigations. The Board will review annually or more frequently as required in the light of the changes to the economic environment, strategic progress and performance of the business.

This exercise is in addition to the evaluation of key risks facing the business, which is undertaken, formally, on an annual basis and disclosed on pages 30 and 31 and the ongoing management and monitoring of risks which is described below.

### Risk identification and reporting

Under the sponsorship of the Group CEO and her strengthened management team, a robust risk framework has been established through which risk is identified and managed with vigour. Management across the Group have responsibility for identifying and managing risk. Risk registers are continually updated through an ongoing programme of risk workshops with operational and financial management. Risk is formally assessed as a standing item at all monthly Segment level board meetings, with key risks being escalated and discussed by the RMG. The chair of the Audit Committee also has a standing invitation to attend the meetings of the RMG. The RMG reports to the Audit Committee and the Risks and Disclosure Committee.

The RMG reports and the risk register identify the principal risks to the business and assess the adequacy of controls and procedures in place to mitigate the likelihood and the impact of these risks. There are also reports to the RMG by specific risk owners on the effectiveness of actions taken to mitigate risks. The regular risk reporting regime has created an environment for the development and improvement of risk management procedures across the Group. The Audit Committee reviews the reports of the RMG and makes recommendations to improve risk management and internal control. This process of risk identification, measurement and reporting provides a comprehensive ongoing assessment of the significant risks facing the Group and the mitigating actions taken in respect of those risks. This process ensures that the Group complies with relevant corporate governance best practice in relation to risk management, including the guidance issued under the Turnbull Guidance. The Group's internal audit function reports directly to the Director of Enterprise Risk and Audit who, together with the Group Finance function, makes recommendations to the Audit Committee in relation to the maintenance of a sound control environment throughout the Group.

A schedule of the Group's principal risks and uncertainties and mitigating actions being taken by management is set out on pages 30 and 31.

During the year, the Board undertook a detailed exercise to consider its risk appetite in a number of key areas for the business. The Board will use the results to support its ongoing decision making.

## Transformation the first 365 days

### Governance Corporate governance report continued

#### Code of Conduct

During the year, a new set of Values and a Code of Conduct was drafted by a team of senior managers and employees drawn from each of our businesses across the Group. To ensure that this important work is fully embedded, over 90% of our employees across the Group have received comprehensive face-to-face training in interactive sessions led by line managers, with plans in place to ensure the remainder are trained in the near term. All new employees also undergo the training as part of their induction. Participation in the training is monitored by both line management and HR functions across the Group. Follow up interviews were also conducted amongst sample groups of employees in each of the business segments and relevant questions were included in the Group-wide employee engagement survey and in performance reviews as a means of confirming that employees have participated in the training session and are aware of the Code and comfortable with its contents. Further training will be given in 2014 to ensure the Code remains fully embedded across the organisation.

The Code of Conduct sets out how we expect our employees to conduct themselves in their everyday working life. It covers areas such as: behaviour towards our customers and our people; health and safety; reputation management; sustainable operation; supplier relationships; anti-bribery; conflicts of interest; competition law; risk management and controls; fraud; theft and false accounting; IT security; share dealing and our prohibition of political donations. The Code also includes guidance to employees about their responsibility to report problems and issues that come to their attention and the alternative ways of raising such issues in escalating order – line management, HR, the “ask-Harriet” email facility, which promotes feedback from all employees, and the Trustline – see below.

The Code of Conduct was issued to all employees in paper copy and is also available on the Group’s intranet and website. In addition, the Group Company Secretary is available for advice on any matter which may give rise to cause for concern.

#### Code of Conduct process

Drafted through engagement with stakeholders Group-wide

Thorough training programme for all employees

Inclusion in Group-wide survey and performance reviews to confirm awareness

Ongoing monitoring

Further training in 2014

Image removed

#### Whistleblowing

As mentioned above, the Code includes guidance to employees about their responsibility to report problems and issues that come to their attention and also the alternative ways of raising such issues. This included a thorough re-launch of the independently run whistleblowing helpline re-named the Trustline. Details of the Trustline are published in the Code of Conduct booklet and also on the Group’s intranet site. Also included in the Code of Conduct were details of the “ask-Harriet” email facility, which allows every employee across the Group to raise issues or make suggestions for improvement directly with the Group CEO. Significant issues brought to management’s attention through the Trustline or “ask Harriet” email facility are reported to the Audit Committee.

#### Review of system of internal control

During the year, the Board, through the work of the Audit Committee, has conducted a review of the effectiveness of the Group’s system of internal control. There is an ongoing process for the identification and evaluation of risk management and internal control processes, which has been in place, and significantly improved, throughout the year and remains in place up to the date of the financial statements. This includes the process by which management prepares consolidated accounts. The work conducted by management and described on pages 30 and 31 is complemented, supported and challenged by the controls assurance work carried out independently by the external auditors, PwC, and the Group Internal Audit function. Regular reports on control issues are presented to the Audit Committee by the Director of Enterprise Risk and Audit. The Board, in reviewing the effectiveness of the system of internal control, can confirm that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from that review. The appointment of the Director of Enterprise Risk and Audit was approved by the Audit Committee at the beginning of the financial year in response to findings from the Audit Committee’s ongoing review.

The approach to risk management and control that is being implemented in the current financial year is set out in the Risk management section on pages 30 and 31.

**Going concern**

After making appropriate enquiries and taking into account the matters set out in the Risk management section on pages 30 and 31 the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

**Internal control and risk management in relation to the financial reporting process**

The Group has a thorough assurance process in place in respect of the preparation, verification and approval of periodic financial reports. This process includes:

- the involvement of qualified professional employees with an appropriate level of experience (both in Group Finance and throughout the business),
- formal sign-offs from appropriate business segment managing directors and finance directors
- comprehensive review and, where appropriate, challenge from key internal Group functions,
- a transparent process to ensure full disclosure of information to the external auditors. Engagement of a professional and experienced firm of external auditors,
- oversight by the Group's Audit Committee involving (amongst other duties)
  - a detailed review of key financial reporting judgements which have been discussed by management,
  - review and, where appropriate, challenge on matters including
    - the consistency of and any changes to, significant accounting policies and practices during the year,
    - significant adjustments resulting from an external audit
    - the going concern assumption, and
    - the Company's statement on internal control systems, prior to endorsement by the Board

The above process and the review by the Audit Committee of a comprehensive note that sets out the details of the preparation, internal verification and approval process for the Annual Report and Accounts, provides comfort to the Board that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

**Statement of Directors' Responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements**

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 Group and the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

- In preparing those 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, and
  - state that the financial statements comply with IFRSs as adopted by the European Union.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors also confirm that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for keeping proper accounting records that show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group, and for ensuring that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website, and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, who were in office at the date of this report whose names and responsibilities are listed on pages 50 and 51, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- the Strategic and Directors' Report contained on pages 2 to 89 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

**Disclosure of information to auditors**

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as he/she is aware, there is no relevant audit information of which the Company's auditors are unaware, and that he/she has taken all steps that he/she ought to have taken as a Director to make him/her aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Share capital and related disclosures**

Disclosures in relation to the share capital of the Company, including the Company's major shareholders are given in the "Other Disclosures" section on pages 88 to 89.

1  
Strategic report2  
Directors' report3  
Financial statements

## Transformation the first 365 days

### Governance: Report on Directors' Remuneration Annual Statement by Chair of Remuneration Committee

# Pay for performance

The Committee considers it essential to ensure that our executive pay arrangements are fully aligned with the ambition and achievement of our Transformation and profitable growth strategy.

**Chairman**  
Roger Burnell

Picture removed

#### Dear Shareholder,

I am delighted to present our report on Directors' remuneration at the end of a very successful year. The Group's improved financial performance and rapid progress in respect of the Transformation have exceeded our initial expectations. Whilst these significant achievements are fully explained on pages 2 to 45 of the Annual Report, I would like to summarise the Group's achievements here to give context to the decisions of the Committee during and in respect of the year.

The Committee believes that the performance of Harriet Green has been exceptional throughout the year. Under her strong leadership and vision we have effected a rigorous and rapid turnaround of the business and moved at pace with our ambitious Transformation, delivering more than expected, as demonstrated by our significantly improved financial performance across a range of KPIs. We have also developed, communicated and started to implement our strategy of sustainable profitable growth. The performance of Michael Healy is also regarded by the Committee as exceptional with the introduction of a successful range of internal disciplines and measures to strengthen our balance sheet and the execution, in June of this year, of our £1.6 billion Capital Refinancing Plan.

The outstanding performance of our Executive Directors across a range of metrics, as disclosed on page 80 of the Annual Remuneration Report, should not diminish the stretching nature of the targets when set by the Committee at the start of the year. It is against this pleasing backdrop, and in line with our 'pay for performance' remuneration philosophy, that the Committee has taken its decisions in respect of our Executive Directors' remuneration arrangements.

The Committee considers it essential to ensure that our executive pay arrangements are fully aligned with the ambition and achievement of our Transformation and profitable growth strategy. We also aim to operate a 'best-in-class' approach to governance and shareholder engagement, so that our executives are remunerated in a manner that reflects the views of our shareholders and best corporate governance practice.



## Alignment with our Transformation and profitable growth strategy

The Committee rigorously follows its pay for performance philosophy and during the year, developed senior executive pay arrangements to ensure they are both stretching and fully aligned with our ambitious Transformation and profitable growth strategy. For the first time, all senior executives now share in the same strategic targets and KPIs that will focus Thomas Cook on delivery and success. Performance against these targets and KPIs is monitored on a regular basis.

Key changes in line with the above reward philosophy include

- > new financial performance measures and targets for the Performance Share Plan (PSP) and
- > new financial and strategic performance measures and targets for the 2013/14 annual bonus plan

### Our targets and KPIs for our Transformation and profitable growth strategy

	FY15 Target
New product revenue	> £700m <sup>1</sup>
Web penetration	> 50%
Cost out/profit improvement	> £440m <sup>1</sup>
Sales CAGR (3 year)	> 3.5%
Gross margin improvement	> 1.5%
UK underlying EBIT margin	> 5%
Cash conversion	> 70% <sup>1</sup>

<sup>1</sup> As described on page 20, three of the targets set out above have been significantly increased since March 2013, when they were first set and communicated to the market (reflecting the pace and extent of progress in respect of the Transformation). These increased targets are: new product revenue – increased from £500 million to £700 million; “cost out/profit improvement” – increased from £350 million to £440 million; and “cash conversion” – increased from 60% to 70%. The targets for the FY 13/14 annual bonus and the September 2013 PSP awards were set with reference to the new targets.

## Reflecting the views of our shareholders

In summer 2013, the Committee conducted a comprehensive consultation with our major shareholders representing greater than 50% of our share capital, and also key governance bodies to discuss our overall remuneration policy and the changes outlined above.

We are grateful for the level of engagement and the positive, supportive and constructive feedback we received on our proposals. We used these inputs to finalise our remuneration policy as we strive to operate a “best-in-class” approach to remuneration and corporate governance.

Further detail, including key changes that were made as result of this consultation, is set out on pages 76 and 87.

We remain committed to ongoing engagement with our shareholders and expect to consult with our major shareholders in relation to any matters that we consider shareholders should have the opportunity to express a prior view on. This includes determining the performance measures for the next award under the Performance Share Plan (currently expected to be made in January 2015) and the exercise of flexibility or significant discretion as provided for in our Policy Report.

### Remuneration outcomes for 2012/13

As referenced above, the annual bonus performance targets set at the start of the year were stretching and fully reflected the challenging nature of the task that then lay ahead. We believe in pay for performance and therefore, due to the exceptional performance by our management team, 100% of the maximum annual bonus opportunity was paid to

The changes outlined impact upon all senior executives with responsibility for delivering our Transformation, including Executive Directors.

## Aligning the long-term interests of our senior executives

The Committee considers it is important that Executive Directors and other key senior executives should further demonstrate their alignment with the long-term interests of shareholders and, therefore, the following changes have been made:

- > the introduction of a shareholding guideline policy of 1x salary; and
- > increased annual bonus deferral, with one third of the annual bonus deferred for two years and the unvested deferred shares subject to clawback.

### How our remuneration is aligned with our Transformation and profitable growth strategy

Annual bonus 13/14	Performance share plan 2012 and 2013
Reflected as a core measure	–
Reflected as a core measure	–
Reflected in Group EBIT measure and Group CEO and CFO role-specific objectives	Reflected in our Group EBIT core measure
Role specific objectives where appropriate	–
Reflected in Group EBIT measure and Group CEO and CFO role-specific objectives	Reflected in our Group EBIT core measure
Role specific objectives where appropriate	–
Reflected as a core measure	Reflected as a core measure for 2012 and 2013

Harriet Green and Michael Healy. A full discussion of performance against targets is set out on page 80.

The 2010 PSP and Co-Investment Plan (COIP) awards lapsed as the performance targets were not met.

### Remuneration for 2013/14

Base salary, annual bonus and PSP award decisions for 2013/14 are set out in the “Statement of implementation of remuneration Policy in the following financial year” on pages 84 and 85.

Those decisions also reflect the exceptional performance of both Harriet Green and Michael Healy over the last year, as evidenced by the achievement of the first stages of our Transformation, and the significant contribution that will be required from our Executive Directors in the future.

### New style report

Our Remuneration Report has been prepared in line with the new regulations. We are grateful to shareholders for their inputs to our Policy Report during our summer 2013 consultation and look forward to your support at the 2014 AGM and throughout the year ahead.

### Roger Burnell

Chairman of the Remuneration Committee  
27 November 2013

## Transformation the first 365 days

# Governance: Report on Directors' Remuneration Directors' Remuneration Policy

It is intended that this Policy Report shall take binding effect from the date of its approval at the 2014 AGM

Information on how the Company intends to implement the policy for the current financial year is set out in the "Statement of implementation of remuneration policy" section in the attached Annual Remuneration Report

### Future policy table

Element	Purpose and link to strategic objectives	Operation
<b>Base salary</b>	<ul style="list-style-type: none"> <li>Provides fixed remuneration for the role which reflects the size and scope of the Executive Director's responsibilities</li> <li>Attracts and retains the high calibre talent necessary to deliver the business strategy</li> </ul>	<ul style="list-style-type: none"> <li>Salaries are paid monthly and are normally reviewed annually</li> <li>Consideration is typically given to a range of factors including:               <ul style="list-style-type: none"> <li>Size and scope of the Executive Director's responsibilities</li> <li>Performance and experience</li> <li>Typical pay levels for comparable roles in companies of a similar size and complexity in the relevant market</li> <li>Pay for other employees in the Group</li> </ul> </li> </ul>
<b>Retirement benefits</b>	<ul style="list-style-type: none"> <li>To provide competitive post retirement benefits or cash allowance equivalent</li> <li>Attracts and retains the high calibre talent necessary to deliver the business strategy</li> </ul>	<ul style="list-style-type: none"> <li>Payment may be made either into a pension scheme (e.g. a defined contribution plan) or delivered as a cash allowance with Company contributions set as a percentage of basic salary</li> <li>Level of benefit is dependent upon seniority</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Ensures the overall package is competitive</li> <li>Attracts and retains the high calibre talent necessary to deliver the business strategy</li> </ul>	<ul style="list-style-type: none"> <li>Provision of a range of benefits by the Company. Such benefits may include those currently provided to Executive Directors as disclosed on page 79. These are reviewed annually by the Committee to ensure that they provide a competitive package and facilitate the delivery of the business strategy</li> <li>The Company reserves the right to deliver benefits to Executive Directors depending on their individual circumstances which may include housing, travel, education, healthcare and other allowances</li> <li>In the case of non-UK executives, the Committee may consider additional allowances in line with standard practice</li> </ul>
<b>Annual bonus</b>	<ul style="list-style-type: none"> <li>Energises and focuses management on rigorous execution of Thomas Cook's strategy on an annual basis</li> <li>Rewards annual performance against challenging annual targets and key performance indicators which are critical to the realisation of our business strategy</li> <li>Compulsory deferral into the Company's shares provides a link to the creation of long term sustainable value and also a retention element</li> <li>The clawback provision enables the Company to mitigate risk</li> </ul>	<ul style="list-style-type: none"> <li>Measures and targets are set annually and pay out levels are determined by the Committee after the year end based on performance against those targets</li> <li>The Committee has full discretion to amend the bonus pay out (upwards or downwards) if in its judgement any formulaic output does not produce a fair result for either the individual Executive Director or the Company taking account of the overall business performance or situation of the Company</li> <li>Executive Directors must defer one third of their annual bonus into Company shares which then vest two years after the cash bonus payment date, subject to continued employment and clawback provisions but no additional performance conditions. Regarding the clawback provisions, unvested share awards lapse in certain scenarios as described on page 74</li> <li>Good leaver terms are described in more detail on page 75</li> <li>At the Committee's discretion, Executive Directors may receive the value of dividend equivalents during the holding period on the vested shares</li> </ul>
<b>Long-term share-based incentive plan</b>	<ul style="list-style-type: none"> <li>Energises and focuses management on rigorous execution of Thomas Cook's strategy over the longer term</li> <li>Rewards sustained performance against challenging long term targets and key performance indicators which are critical to the realisation of our business strategy</li> <li>Long term performance targets and share-based remuneration support the creation of long term shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>The current Performance Share Plan was approved by shareholders in 2007 and is governed by the rules of the Plan. A summary of the key features is set out below</li> <li>Awards may be made in the form of conditional shares or options with vesting dependent upon the achievement of performance conditions set by the Committee. Vesting of awards will be subject to a three year performance period</li> <li>The Committee has full discretion to amend the number of shares that vest (upwards or downwards) if in its judgement any formulaic output does not produce a fair result for either the individual Executive Director or the Company taking account of the overall business performance or situation of the Company</li> <li>The award will lapse if the participant leaves employment before vesting unless in specific "good leaver" circumstances. Good leaver terms are described in more detail on page 75</li> <li>The Committee may in the event of a variation of the Company's share capital adjust or amend the terms of the awards in accordance with the rules of the Plan</li> <li>If the Company pays any dividends in respect of record dates falling in the period from the award date to the vesting date, the Committee may consider that the Executive should receive a payment following delivery of the shares in satisfaction of their award, the value of which is equivalent to the cash value of the dividends in respect of any shares that vest</li> </ul>
<b>Chairman and Non-Executive Director fees</b>	<ul style="list-style-type: none"> <li>To reward individuals for fulfilling the relevant role</li> <li>Attracts and retains individuals with the skills, experience and knowledge to contribute to an effective Board</li> </ul>	<ul style="list-style-type: none"> <li>The Committee is responsible for determining the fees for the Chairman of the Company. The fees for the other Non-Executive Directors are set by the Board</li> <li>The fee structure may include:               <ul style="list-style-type: none"> <li>A basic fee</li> <li>Additional fees for chairmanship of Board committees</li> <li>Additional fees for further responsibilities (for example, Senior Independent Directorship)</li> </ul> </li> <li>Travel and hotel costs that are deemed to be an employment benefit by the relevant tax authority may also be paid</li> </ul>

The Committee reserves the right to make any remuneration or loss of office payments (including the satisfaction of any outstanding awards of variable remuneration made to Executive Directors) where the terms of that payment were agreed: (i) prior to the approval of this Policy under their original terms – for these purposes, the terms of a share award are agreed at the time it is granted or (ii) at a time where the individual was not a Director of the Company and in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company

Maximum opportunity	Performance metrics
<ul style="list-style-type: none"> <li>Current salaries are disclosed on page 85</li> <li>Increases may be made to salary levels in certain circumstances as required for example to reflect               <ul style="list-style-type: none"> <li>Increase in scope of role or responsibility</li> <li>Performance in role</li> <li>An Executive Director being moved to market positioning over time</li> </ul> </li> <li>Ordinarily salary increases will not exceed the average increase awarded to other employees in the Group</li> </ul>	Performance through our performance management processes is one of the key considerations in setting and reviewing salary
<ul style="list-style-type: none"> <li>Current Company contribution rates are disclosed on page 79</li> <li>Set at a level which the Committee considers is appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market</li> </ul>	None
<ul style="list-style-type: none"> <li>Benefits may include those currently provided to Executive Directors as disclosed on page 79 however the Committee reserves the right to provide such level of benefits as it considers appropriate to support the ongoing strategy of the Company</li> </ul>	None
For maximum performance – 150% of salary	<ul style="list-style-type: none"> <li>The Committee will have regard to various performance metrics (which will be determined by the Committee) measured over the relevant financial year when determining bonuses</li> <li>No less than 70% of the award is based on financial measures and up to 30% of the award may be based on the achievement of role-specific objectives which may be financial or non financial</li> <li>For achievement of a "threshold" performance level (the minimum level of performance that results in any payment) no more than 20% of the maximum for each element of the bonus pays out</li> <li>For achievement of a "mid" performance level no more than 60% of the maximum for each performance metric in relation to the bonus pays out</li> <li>For achievement of a "maximum" performance level 100% of the maximum pays out</li> </ul>
<ul style="list-style-type: none"> <li>Under the plan rules the aggregate value of all awards made within any 12 month period must not exceed 200% of base salary (or such other period as the Committee may determine in exceptional circumstances)</li> <li>The normal maximum face value of awards is 150% of salary</li> <li>However the Committee has a discretion to award up to the plan rules max when it believes the situation warrants a higher level of award</li> </ul>	<ul style="list-style-type: none"> <li>The performance measures for the Performance Share Plan will be a combination of financial measures and share price based measures measured over at least a three year performance period. Normally the weightings will be as follows               <ul style="list-style-type: none"> <li>At least 50% will be based on financial measures</li> <li>At least 30% will be based on share price based measures</li> <li>The remaining 20% may be based either on financial or share price based measures</li> </ul> </li> <li>The Committee will determine more specific performance measures for future awards as the Company makes progress with its Transformation during 2014 and will consult with major shareholders ahead of the next award</li> <li>The performance measures may be adjusted following grant by the Committee to ensure a consistent basis of calculation and to provide a fair reflection of the Company's performance</li> <li>For achievement of a "threshold" performance level (which is the minimum level of performance that results in any part of an award vesting) no more than 30% of each respective element of the award will vest</li> <li>For achievement of a "maximum" performance level (which is the highest level of performance that results in any additional vesting) 100% of each respective element of the award will vest</li> <li>Normally there will be straight line vesting for any performance level between "threshold" and "maximum"</li> <li>The Committee may substitute vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate</li> </ul>
<ul style="list-style-type: none"> <li>Set at a level which the Committee (or the Board as appropriate) considers               <ul style="list-style-type: none"> <li>Reflects the time commitment and contribution that is expected from the Chairman and Non-Executive Directors</li> </ul> </li> <li>Appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market</li> </ul>	None

## Transformation the first 365 days

### Governance Report on Directors' Remuneration Directors' Remuneration Policy continued

#### Explanatory detail for future policy table

##### Changes made in the year

In light of the new Thomas Cook strategy for profitable growth which was announced in March 2013, the Company undertook a review of the executive remuneration policy to ensure that it fits the future needs of the business

The following changes were made

- The performance measures for the annual bonus plan and the Performance Share Plan were reviewed and will be agreed each year to ensure that they support the Thomas Cook strategy
- The level of annual bonus deferral was increased to improve the alignment of the Thomas Cook executive team with shareholders over the longer term
- For the same reason a shareholding guideline policy was introduced

As detailed below shareholder views were sought on these changes

##### Explanation of chosen performance measures and the target setting process

Performance measures have been selected to reflect the targets and key performance indicators which are critical to the realisation of our business strategy

Challenging performance targets are set by the Committee each year for the annual bonus and the PSP. When setting these targets the Committee will take into account a number of different reference points including the Company's business plan and consensus analyst forecasts of the Company's performance. Full vesting will only occur for what the Committee considers to be stretching performance

##### Clawback

As highlighted in the policy table, a clawback arrangement is in place. Under this arrangement, the unvested deferred annual bonus shares may lapse in whole or in part if a clawback event occurs which includes

- a material adverse misstatement of the Company's financial statements
- the participant or their team having engaged in gross misconduct or in conduct which resulted in significant losses, as determined by the Committee and/or
- the Company having suffered serious reputational damage as determined by the Committee, as a result of any action taken by the participant or his team

In addition, under the PSP, the Committee has discretion to amend the final vesting level should any formulaic output not reflect the overall business performance. This discretion allows the Committee to decrease or increase the pay out in the range of 0% – 100% of the number of shares awarded

Salary pension and benefits are not subject to clawback

##### Policy for the remuneration of employees generally

Remuneration arrangements are determined throughout the Group based on the same principle that reward should be achieved for delivery of our business strategy and should be sufficient to attract and retain high calibre talent without paying more than is necessary

Thomas Cook has operations based in a number of different countries and at different levels of seniority, and though based on the overarching principle above reward policies vary depending upon these factors

Senior executives with a significant ability to influence Company results may participate in the annual bonus plan and the PSP

#### Approach to recruitment remuneration

When agreeing a remuneration package for the appointment of new directors, the Committee will apply the following principles

- The package will be sufficient to attract and retain the high-calibre talent necessary to develop and deliver the business strategy
- The Committee will seek to ensure that no more is paid than is necessary
- In the next annual remuneration report the Committee will explain to shareholders the rationale for the relevant arrangements and if and when the transition to the policy described on pages 72 and 73 will occur

The following elements may be considered by the Committee for inclusion in a recruitment package for an Executive Director, in addition to the policy elements set out in the table on pages 72 and 73

Element	Approach
<b>Initial long-term incentive award</b>	An initial long term incentive award may be made which may be higher than the maximum PSP opportunity as set out on page 73. The Committee will ensure: <ul style="list-style-type: none"> <li>– The award is linked to the achievement of appropriate and challenging performance targets</li> <li>– The award will be forfeited if the performance and continued employment conditions are not achieved</li> </ul>
<b>Initial annual bonus opportunity</b>	The initial annual bonus opportunity may be set higher than the approved policy. The Committee will ensure the award is linked to the achievement of appropriate and challenging performance targets
<b>Compensation for forfeited awards</b>	The terms of any compensation will be determined by taking into account the terms of any forfeited awards including: <ul style="list-style-type: none"> <li>– Performance achieved or likely to be achieved</li> <li>– The proportion of performance/vesting period remaining</li> <li>– The form and timing of the original award</li> </ul>
<b>Sign on awards</b>	In certain limited circumstances for example in order to compensate for a loss at a previous employer other than for forfeited awards the Committee may make a one off sign-on award as part of the initial package. The Committee retains the discretion to determine based on the circumstances at the time whether this would be in cash or shares whether or not performance conditions or an additional holding period would apply
<b>Notice period</b>	The initial notice period may be longer than the Company's six month policy (up to a maximum of 24 months). However this will reduce by one month for every month served until the Company's policy position is reached
<b>Relocation costs</b>	Where necessary the Company will pay appropriate relocation costs in line with standard practice. The Committee will seek to ensure that no more is paid than is necessary

An enhanced initial notice period, sign-on awards or increased initial annual bonus or long-term incentive award opportunities would only be made available in exceptional circumstances

Under the reporting regulations, Thomas Cook is required to set out the maximum amount of variable pay which could be paid to a new Director in respect of their recruitment. In order to provide the Company with sufficient flexibility in a recruitment scenario, the Committee has set this figure as 500% of base salary. This covers the maximum annual bonus and the maximum face value of any long-term incentive awards.

This level of variable pay would only be available in exceptional circumstances, and in order to achieve such a level of variable pay stretching targets would need to be met, over both one year (for the annual bonus) and at least three-year (for long-term incentive) performance periods.

For individuals becoming Executive Directors as a result of an internal promotion from within Thomas Cook or as a result of an acquisition, any awards under other arrangements which were made prior to joining the Board may be allowed to continue under the original terms, or under a revised basis (such as a roll-over into Thomas Cook shares) if the Committee determines appropriate.

Fee levels for a new Chairman or new Non-Executive Directors will be determined in accordance with the policy set out in the future policy table above.

## Service contracts and loss of office payments

### Executive Directors

Executive Directors have Company service contracts. For Harriet Green and Michael Healy, the service contracts provide for a six month's notice period, from both the Company and the Executive Director.

If the Company terminates the employment of the Executive Director with immediate effect, a payment in lieu of notice may be made. This may include base salary, pension and benefits.

Outstanding awards under the performance-linked elements of the package will normally lapse if an executive leaves the Company before the payment or vesting date. However, in "good leaver" scenarios these may vest. This may include:

- If the participant leaves during the annual bonus performance year and before the payment date, a bonus payment in respect of the year may be made, pro-rated to reflect the portion of the performance year elapsed and with reference to performance achieved.
- If the participant leaves before the end of the holding period, any unvested deferred bonus shares may vest.
- Outstanding unvested awards under the PSP vest to the extent determined by the Committee taking into account the period of time the individual has held the award and performance achieved against any relevant performance targets.

For reference, "good leaver" scenarios include death, disability, injury, ill health, redundancy, retirement, the award holder's employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate.

Other than in the "good leaver" scenarios described, no pay-outs will be made under performance-linked elements.

Any "good leaver" awards may vest or be paid out immediately upon termination or in line with the original vesting or payment date, at the discretion of the Committee.

Awards granted under the PSP shall lapse at the time of cessation of employment unless the Committee has used its discretion to deem that an individual is a "good leaver", when the Committee has the discretion to determine when awards vest and, if relevant, when they may be exercised. Awards structured as options shall be exercisable for a period of six months (or 12 months in the case of death) from vesting unless the Committee determines any other period should apply. Awards may also vest early if the participant is moved to a country where their capacity to hold the award or deal in shares would be restricted or they would suffer a tax disadvantage in connection with the award.

In the event of a takeover or winding-up of the Company (other than as part of an internal reorganisation of the Thomas Cook Group), PSP awards may also vest to the extent determined by the Committee taking into account the period elapsed since grant and the performance achieved against any relevant performance targets. The awards may also be "rolled over" into new shares of an acquiring company.

### Non-Executive Directors

Non-Executive Directors, including the Chairman, are appointed pursuant to a letter of appointment. During the year the notice period for all Non-Executive Directors was reduced from six months to three months for the Chairman, and from six months to one month for the other Non-Executive Directors. All Non-Executive Directors are subject to annual re-election by shareholders at the AGM. The Non-Executive Directors' letters of appointment continue until the date stated in their appointment letter, unless they are terminated for cause or on the notice period stated, or if they are not re-elected at the AGM.

The Directors' service contracts and letters of appointment are kept for inspection by shareholders at the Company's registered office.

**Transformation** the first 365 daysGovernance Report on Directors' Remuneration  
Directors' Remuneration Policy continued**Outside appointments**

The Company recognises the benefits to the individual, and to the Group, of Executive Directors taking on external appointments as Non-Executive Directors. Subject to the approval of the Committee, an Executive Director may accept such appointments at other companies or other similar advisory or consultative roles. The Committee has set a limit of one external appointment for each Executive Director to one FTSE 100 or 250 company, or an international company of a similar size, unless there is justification for a further appointment. The Board will review the time commitment of all outside appointments and ensure that it is satisfied that this will not negatively impact upon the executive's time commitment to the performance of Thomas Cook duties.

The Committee may allow Executive Directors to retain any fees payable.

**Statement of consideration of conditions elsewhere in the Company**

When setting the policy for Directors' remuneration, the Committee has regard to the pay and employment conditions elsewhere within the Group. This includes consideration of:

- Salary increases for the general employee population
- Overall spend on annual bonus
- Participation levels in the annual bonus and any long-term incentives
- Company-wide benefit (including pension) offerings
- Any other relevant factors as determined by the Committee

In order to take into account the views of the general employee population when formulating Director pay policy, the Committee may review information provided by the HR function and feedback from employee engagement surveys.

**Statement of consideration of shareholder views**

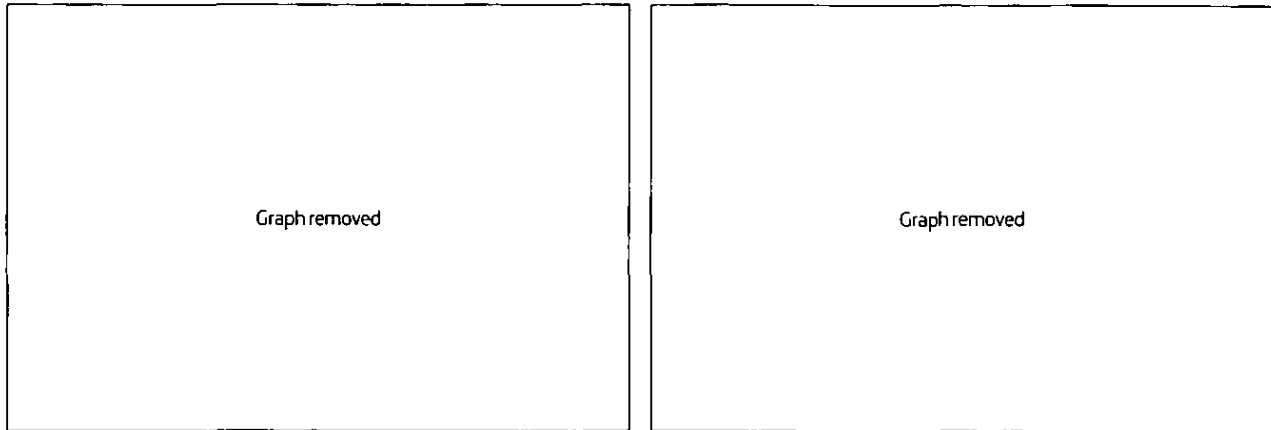
The Company is committed to on-going engagement and seeks major shareholder views in advance of proposing significant changes to its remuneration policies. The following describes the 2013 consultation as a recent example:

- During the year, the Company consulted with its shareholders in respect of remuneration.
- In response to the advisory shareholder vote on the Directors' Remuneration Report at the 2013 AGM, both the Chairman of the Board and the Chairman of the Remuneration Committee met with major shareholders to discuss the issues raised by them.
- In addition, after the announcement of the Company's new strategy in March 2013 the Chairman of the Board and the Remuneration Committee chairman met with major shareholders representing cumulatively over 50% of the Company's share capital in June and July 2013 to discuss the approach to performance conditions for the September 2012 and September 2013 PSP awards and to present the Remuneration Policy set out under the then draft revised Directors' Remuneration Report Regulations which included the increased annual bonus deferral and the introduction of shareholding requirements. At these meetings, soundings were taken in respect of Executive Director base pay rises.
- Subsequent follow up consultation was carried out during September, October and November.

We were pleased with the level of engagement from our shareholders and the positive, supportive and constructive feedback we received on our proposals. Views from all shareholder meetings were taken into consideration when formulating executive remuneration policy. An example of how shareholders' views were taken into account was that the Committee decided to amend the share price measurement basis to be in line with shareholder requirements, as described on pages 81 and 87.

We were pleased with the level of engagement from our shareholders, and the positive, supportive and constructive feedback we received on our proposals.

## Illustrative performance scenarios



The above charts are based on the current package. The charts show the level of remuneration that would be received by the Directors above in accordance with the Directors' remuneration policy in the first financial year it applies (i.e. financial year 2013/2014). The charts show three scenarios: (a) base salary, benefits and pension; (b) mid; and (c) maximum.

In developing the scenarios, the following assumptions have been made:

Base salary, benefits and pension	Based on what an Executive Director would receive if performance was in line with the following scenario				
	Only total fixed pay is received, i.e. base salary, benefits and pension. This is calculated as follows:				
	– Base salary is the latest known salary				
	– Benefits measured at benefits in single figure table. Further context for this figure is provided on page 79				
Mid	– Pension measured by applying cash in lieu rate against latest known salary				
		Base	Benefits	Pension	Total fixed
	Group CEO	£680,000	£186,000	£204,000	£1,070,000
	Group CFO	£500,000	£22,000	£125,000	£647,000
Maximum	Based on what an Executive Director would receive if performance was in line with the following scenario:				
	– Full pay-out of annual bonus, i.e. 150% of salary				
	– A PSP award with a face value of 200% (in line with the "maximum" possible award under the plan rules) pays out at 100% of maximum				

Notes: As required by the regulations, performance share plan awards (and amounts included within the bonus which have been deferred into shares) are set out at face value with no share price growth assumptions.

## Transformation the first 365 days

Governance: Report on Directors' Remuneration  
Annual Remuneration Report

The Remuneration Committee presents its Annual Report on Directors' remuneration which is set out below

## Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Remuneration Committee when matters relating to the Directors' remuneration for the year were considered

- Roger Burnell (Chair)
- Dawn Airey
- Martine Verluyten
- Emre Berkin (from 1 April 2013)

The Committee invites individuals to attend meetings, as it deems beneficial to assist it in reviewing matters for consideration. During the year, these individuals included Frank Meysman (Chairman), Harriet Green (Group Chief Executive Officer), Peter Marks (Non-Executive Director), Craig Stoeher (Group General Counsel), Sandra Campopiano (Chief People Officer), Judith Mackenzie (Group Head of Performance and Reward) and Derek Woodward (Group Company Secretary). Martine Verluyten is also Chairman of the Audit Committee and as such ensures that there is coordination in respect of risk and accounting issues.

No Director or Senior Executive is present at meetings when their own remuneration arrangements are discussed.

## Single figure of total remuneration

The following table sets out the single figure of total remuneration for Directors for the financial years ending 30 September 2012 and 2013

	(a) Salary/fees		(b) Benefits		(c) Annual bonus		(d) PSP		(e) Pension		Total (excluding buy-out awards)		Buy out awards*		(f) Total	
	£ 000		£'000		£ 000		£ 000		£'000		£'000		£'000		£ 000	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
<b>Executive Directors</b>																
Harriet Green <sup>1</sup>	680	118	186	27	1 785 <sup>2</sup>	–	–	–	204	36	2 855	181	–	536	2 855	717
Michael Healy <sup>3</sup>	480	105	22	6	720	39	–	–	120	26	1 342	176	–	–	1 342	176
<b>Non-Executive Directors</b>																
Frank Meysman	275	275	38	54	–	–	–	–	–	–	313	329	–	–	313	329
Dawn Airey	60	60	–	–	–	–	–	–	–	–	60	60	–	–	60	60
Emre Berkin <sup>4</sup>	55	–	–	–	–	–	–	–	–	–	55	–	–	–	55	–
Roger Burnell	80	76	–	–	–	–	–	–	–	–	80	76	–	–	80	76
Peter Marks	70	66	–	–	–	–	–	–	–	–	70	66	–	–	70	66
Martine Verluyten	80	73	–	–	–	–	–	–	–	–	80	73	–	–	80	73
<b>Past-Non Executive Director</b>																
Richard Pennycook <sup>5</sup>	11	–	–	–	–	–	–	–	–	–	11	–	–	–	11	–
<b>Total</b>															<b>4,866</b>	<b>3,012</b>

## Notes

- 1 Harriet Green was appointed Group CEO on 30 July 2012
- 2 The bonus amount shown of £1 785 000 relates to a 14 month period from 30 July 2012 to 30 September 2013, however, as the performance conditions ended during the year (2012/13) it is necessary to show the bonus amount solely within that year.
- 3 Michael Healy was appointed Group CFO on 1 July 2012
- 4 Emre Berkin was appointed to the Board on 1 November 2012
- 5 Richard Pennycook was appointed to the Board on 1 April 2013 and resigned on 5 June 2013
- 6 As disclosed in the 2011/12 Directors' Remuneration Report, by resigning from her previous position to join the Company, Harriet Green forfeited deferred bonus and long term incentive awards granted by her former employer. To help in securing her appointment, the Company agreed to provide a measure of compensation for these awards, based on an independent external valuation of the projected vesting level. As a result, the Company paid Harriet Green cash payments of £244 000 and £292 000 in April and July 2013 respectively, such dates being the normal vesting dates for the awards made by her former employer. The value has been noted in the 2011/12 column as the payment was in respect of Harriet Green's appointment during that year. The Committee did not consider it appropriate to apply additional Thomas Cook performance measures to these payments, as they are compensation for forfeiture of awards from a former employer and reflect only the projected vesting level of those awards, already taking into account performance achieved compared to the original targets set.



## Additional disclosures

Further information in respect of the salary, benefits, pension, annual bonus and PSP amounts included in the table above are given below

### Salary

Base salaries for the Executive Directors were unchanged during the year

### Benefits

The following table sets out the benefits received and the tax paid by the Company in respect of certain benefits

Name	Car allowance	Private medical	Life assurance	Income protection	Accommodation costs	Tax on grossed up accommodation costs	Travel costs	Tax on grossed up travel costs	Total
Harriet Green	£20,000	£1,693	£1,405	£6,468	£60,937	£54,619	£21,205	£19,440	£185,767
Michael Healy	£20,000	£1,693	£796	–	–	–	–	–	£22,489
Frank Meysman	–	–	–	–	£13,174	£12,241	£12,379	–	£37,794

The benefits received by the Executive Directors include private medical benefits, life assurance/death-in-service benefit and car allowance. Harriet Green additionally receives income protection and the provision of accommodation in London and travel costs reimbursed by the Company and the income tax assessed by HMRC as payable on the accommodation and travel expense elements\*. Of the benefits disclosed for Harriet Green, circa £82,000 relate to these accommodation and travel costs, which are considered necessary due to late and early meetings necessitated by the scale and pace of our ambitious Transformation. The figure disclosed for Frank Meysman is in respect of accommodation in London and travel costs reimbursed by the Company and the income tax assessed by HMRC as payable on the London accommodation element\*. Frank Meysman's travel expenses between Belgium and the UK are not taxable, as he is domiciled in Belgium and is entitled to a specific deduction under HMRC rules.

\* The income tax is not paid on any other elements of the benefits received by Harriet Green and Frank Meysman.

### Pensions

The Company contributes for each of the Executive Directors into either a pension scheme or as a cash allowance an amount equivalent to 30% and 25% of annual base salary or the Group CEO and Group CFO respectively. Currently, both Harriet Green and Michael Healy receive their pension contributions as cash allowances.

## Transformation the first 365 days

### Governance Report on Directors' Remuneration Annual Remuneration Report continued

#### Annual bonus

For the year the maximum annual bonus award opportunity was

- > **Group CEO** 225% of salary per annum (however the Committee agreed at the time of appointment of Harriet Green that the 2012/13 annual bonus maximum would be adjusted to reflect the 14 month period from date of appointment to the year end) The rationale for this maximum bonus opportunity of 225% was, as stated in last year's report, to incentivise significant stretch targets linked to the Transformation plan. The annual bonus opportunity for FY 2013/14 is aligned with policy at 150%
- > **Group CFO** 150% of salary per annum

The table below sets out details of performance against the FY 2012/13 bonus targets

Group CEO		Weight (as a % of max award)	Actual performance relative to targets set				Actual performance achieved	% improvement on 2011/12	Resulting level of award (% maximum opportunity)
Measures			Below	Threshold (20% of maximum opportunity)	Mid (60% of maximum opportunity)	Maximum (100% of maximum opportunity)			
Financial	Group free cash flow	15%					£53.2m	n/a <sup>1</sup>	100%
	Group underlying EBIT <sup>2</sup>	10%					£263.0m	68.48%	100%
	UK underlying EBIT <sup>3</sup>	10%					£65.2m	413.39%	100%
	Internal savings	10%					Savings of £250m announced to the market at the half year and £70m realised FY13	n/a	100%
	External funding	15%					£1.6bn refinancing plan executed in June 2013	n/a	100%
	Management Information Reporting	5%					Significant improvements delivered	n/a	100%
Strategic and people	Targets were set relating to the development and launch of the new strategy and key talent engagement and best practice sharing initiatives	35%					Performance judged exceptional against all measures. Highlights include successful approval and positively received launch of the new strategy for profitable growth and critical new leadership appointments made and significant improvements in internal and external communication and effective ways of working	n/a	100%
Total resulting level of award as % of maximum opportunity									100%

Group CFO		Weight (as a % of max award)	Actual performance relative to targets set				Actual performance achieved	% improvement on 2011/12	Resulting level of award (% maximum opportunity)
Measures			Below	Threshold (20% of maximum opportunity)	Mid (60% of maximum opportunity)	Maximum (100% of maximum opportunity)			
Financial	Group free cash flow	35%					£53.2m	n/a <sup>1</sup>	100%
	Group underlying EBIT <sup>2</sup>	35%					£263.0m	68.48%	100%
Strategic and people	Targets were set relating to external funding, development of the Group Finance function and relevant strategic financial targets	30%					Exceptional performance in leading the successful capital refinancing in May 2013 Continuous improvement of Group Finance processes Savings of £250m announced to the market at the half year and £70m realised FY13 Supported the UK management team in achieving turnaround objectives and delivery of UK underlying EBIT of £65.2m	n/a	100%
Total resulting level of award as % of maximum opportunity									100%

#### Notes

- The percentage improvement on 2011/12 for Group free cash flow is marked as n/a because last year's figure of £(103) million was negative which does not permit a percentage comparison.
- Group underlying EBIT performance of £263 million for FY 13 resulted in 100% achievement of the bonus stretch target. In addition, the Remuneration Committee made an adjustment to the FY 13 actual performance and bonus targets to include the results of the North American business for the period prior to disposal in FY 13. Although this calculation reduced actual performance and increased the bonus target, as the North American business made losses prior to disposal while it was budgeted to be profitable, the result showed that 100% of the stretch target would still have been achieved.
- 2011/12 figures included India (divested in 2012).

The actual performance targets set at the beginning of the performance period are not disclosed as they are considered to remain commercially sensitive at this time. We will disclose these targets at such point that the Committee considers they are no longer commercially sensitive.

#### Annual bonus deferral

One quarter of the annual bonus was deferred into the Company's shares, which will be released after one year. This policy has been amended for the current year and one third of the bonus declared in respect of the 2013/14 year will be held in the form of shares, which will vest after two years from the cash bonus date, subject to continued employment and the clawback provisions described on page 74. The deferred shares may be forfeited if the Executive Director leaves before the date the deferred shares are released.

#### Performance Share Plan ("PSP") awards

There are no pay outs in respect of the PSP as no awards made to the Executive Directors have yet reached their vesting dates.

#### Scheme interests awarded during the financial year

The following table sets out details of awards of conditional shares made during the year under the PSP. Thomas Cook consulted with major shareholders in respect of these awards – further detail is provided on pages 66, 76 and 87.

Reflecting the exceptional performance of both Executive Directors over the last year, as evidenced by the achievement of the first stages of our Transformation, the Committee considered enhanced award levels with face values of 200% and 187.5% of salary were appropriate for Harriet Green and Michael Healy respectively. The award levels, and the challenging performance targets, reflect the significant contribution that will be required from our Executive Directors over the next three years.

In addition, the levels reflect that the Committee does not currently envisage making any further awards under the PSP to Executive Directors until early 2015 (i.e. it is not intended to make PSP awards to Executive Directors during the financial year ending 30 September 2014).

Face value has been calculated by multiplying the number of shares awarded by a price of £1.475 which was the closing share price for the trading day immediately prior to the award date.

	Date of award	Number of shares awarded	Face value	Amount vesting		End of financial measures performance period	End of share price performance period
				Threshold performance (% of face value)	Maximum performance (% of face value)		
Group CEO	30/09/2013	922,033	£1,360,000	30%	100%	30/09/2016	Measurement approach is described below
Group CFO	30/09/2013	610,169	£900,000	30%	100%	30/09/2016	

Awards to both Executive Directors will vest dependent upon the achievement of three year performance measures as set out below.

Share price (45% of the overall award)			Group underlying EBIT (30% of the overall award)			Cash conversion (25% of the overall award)		
Performance level	Share price	Vesting (% of this portion)	Performance level	Group underlying EBIT	Vesting (% of this portion)	Performance level	Cash conversion	Vesting (% of this portion)
Maximum	£3.00	100%	Maximum	See below	100%	Maximum	90%	100%
Threshold	£2.25	30%	Threshold		30%	Threshold	70%	30%
Share price performance is measured as the average share price performance over the fixed period of 30 trading days from the release of the preliminary FY16 results, with the intention of capturing the market's reaction to the financial results.			Group underlying EBIT performance in respect of FY16, which is the final year of the three year performance period. Group underlying EBIT excludes exceptional items.			Cash conversion performance measured in respect of FY16 cash conversion, which is the final year of the three-year performance period. Cash conversion is defined as free cash flow post exceptional items, before capital expenditure/EBITDA.		

The performance measures above were selected to reflect the strategic and transformational objectives of the Group. Along with the 2013/14 annual bonus plan targets, these measures create full alignment of our reward arrangements with our Transformation targets and KPIs, as demonstrated on page 20. The rationale for the continued use of share price targets, albeit with an amended measurement basis, was agreed with major Shareholders, as set out on pages 66, 76 and 87.

The Committee considers the targets to be challenging and the auditors maintain oversight of the performance measurement process. The Company's share price when Harriet Green joined on 30 July 2012 was 16.25 pence and by 30 September 2013 it was 153.4 pence. The performance targets for the September 2013 PSP award were made by reference to the new increased financial targets as described on pages 20 and 71.

## Transformation the first 365 days

### Governance Report on Directors' Remuneration Annual Remuneration Report continued

The Committee also considers the Group underlying EBIT targets to be stretching however due to our ambitious plans for the business Transformation we consider that these targets are commercially sensitive at this point. We commit to disclosing the target range on a retrospective basis at the end of the performance period. We have discussed this approach with our major Shareholders, who are supportive.

The Committee will have the discretion to amend the final pay-out level if it does not consider that it reflects the underlying performance of the Company. As discussed on page 71, we would expect to consult with our shareholders in the event of any significant adjustment, in particular an upwards adjustment.

The Committee considers that it is important that all senior executives share in the same strategic targets and KPIs that will focus Thomas Cook on delivery and success. The top 100 senior executives participate in the Performance Share Plan and are therefore also focused on delivery of share price, Group underlying EBIT and cash conversion targets.

Full details of the scheme interests held by Executive Directors are set out on page 86.

#### Payments within the reporting year to past Directors, and loss of office payments

There were no payments to past Directors who were not in position as a Director at the time a relevant payment was accrued. There were also no loss of office payments made within the year.

#### Current Executive Director service contracts

The dates of the service contracts for Harriet Green and Michael Healy are 23 May 2012 and 8 May 2012. Harriet Green's initial notice period was 24 months, reducing at the rate of one month for every month served (from commencement of her service as CEO on 30 July 2012) until the Policy position of six months is reached. At the date of approval of this report, Harriet Green's notice period is nine months and at the time of our AGM in February 2014 it will be six months, in line with our Policy. The service contracts are available for inspection at the Company's registered office.

#### Non-Executive Directors

The Chairman is paid a single, consolidated fee of £275,000.

The Non-Executive Directors are paid a basic fee plus additional fees for chairmanship of Board Committees.

The annual rates of Non-Executive Director fees are shown in the table below.

Position	Annual fees £,000
Non-Executive Director	60
Additional fee for the Chairman of the Audit Committee	20
Additional fee for the Chairman of the Remuneration Committee	20
Additional fee for the Chairman of the Health, Safety and Environmental Committee	10

Note: Fee rates were reviewed during the year and following a benchmarking exercise were left unchanged.

Each of the Non-Executive Directors has been appointed pursuant to a letter of appointment which are available for inspection at the Company's registered office. The appointments under these letters continue until the expiry dates set out below unless terminated for cause or on the period of notice stated below.

Director	Date of latest letter of appointment	Expiry date	Notice period
Frank Meysman	27 March 2013	N/A	3 months
Dawn Airey	27 March 2013	11 April 2016	1 month
Emre Berkin	27 March 2013	30 October 2015	1 month
Roger Burnell	27 March 2013	2014 AGM	1 month
Peter Marks	27 March 2013	30 September 2014	1 month
Carl Symon	3 October 2013	2 October 2016	1 month
Warren Tucker	3 October 2013	2 October 2016	1 month
Martine Verluyten	27 March 2013	8 May 2014	1 month

Note: The notice period for Non-Executive Directors was reduced from six months to one month (three months for the Chairman) during the year, to bring the notice periods in line with best practice.

#### External appointments

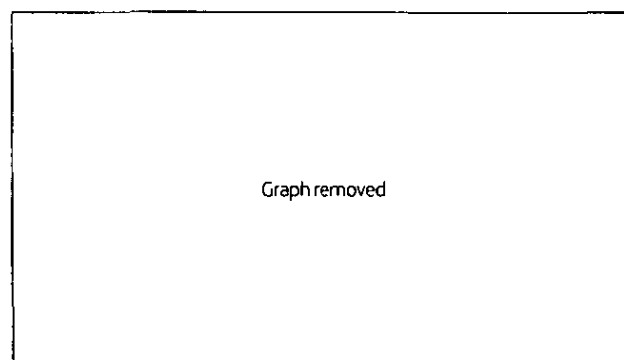
As set out in the Policy Report, the Company recognises the benefits of Executive Directors taking on external appointments as Non-Executive Directors, subject to the limitations set out in the Policy Report and to Committee approval.

Harriet Green is a non-executive director of BAE Systems plc and Emerson Electric Co. Both roles were held prior to her appointment as Group CEO. On her appointment, the Board agreed that she should continue to serve on both boards, being satisfied that she will devote sufficient time and energy to the Company and that being a non-executive director is a mutual benefit to the executive and the Company. For the period from 1 October 2012 until 30 September 2013, she received fees of £84,000 and \$115,875.08 respectively which she is allowed to retain.

#### Performance graphs

##### Performance of market capitalisation since 31 July 2012

The graph set out below shows the increase in the Company's stock market capitalisation, in the period 31 July 2012 to 30 September 2013 (the period between the appointment of Harriet Green as CEO and the end of FY13).



**Relative performance since 31 July 2012**

The graph set out on the right shows the Total Shareholder Return ("TSR" described in more detail further below) for Thomas Cook Group plc shareholders from 31 July 2012 to 30 September 2013 (the period between the appointment of Harriet Green as CEO and the end of FY13) based on a starting value of £100 invested compared to the FTSE 250 Index and the FTSE All Share Travel & Leisure Index

Note This graph shows the value of Thomas Cook plc on 31 July 2012 compared with the value of £100 invested in the FTSE 250 and FTSE All Share Travel & Leisure Index. The intermediate points are the values at the end of each month in the period.

Graph removed

1  
Strategic report

**Statutory graph**

The graph below shows the TSR for holders of Thomas Cook Group plc £0.10 Ordinary Shares (£0.01 Ordinary Shares from 3 June 2013) for the five year period since 30 September 2008, measured against the FTSE 250 Index and the FTSE All Share Travel & Leisure Index. These indices were chosen as relevant comparators as the Company is a member of both indices, with one reflecting a broad equity index and the other being specific to the travel sector. The calculation of TSR is in accordance with the relevant remuneration regulations and is broadly the change in market price together with reinvestment of dividend income. This graph shows the value of £100 invested in Thomas Cook Group plc on 30 September 2008 compared with the value of £100 invested in the FTSE 250 Index and the FTSE All Share Travel & Leisure Index. The intermediate points are the values at the Company's financial year ends.

Graph removed

2  
Directors' report

	Group CEO	FY 2008/09	FY 2009/10	FY 2010/11	FY 2011/12	FY 2012/13
<b>CEO single figure of remuneration</b>	Harriet Green <sup>1</sup>	–	–	–	£717 000	£2 855 000
	Sam Weihagen <sup>2</sup>	–	–	£153 000	£1 171 000	–
	Manny Fontenla Novoa <sup>3</sup>	£2 996 000	£2 322 000	£2 175 000*	–	–
<b>Annual bonus pay-out (as % maximum opportunity)</b>	Harriet Green	–	–	–	See note 5	100%
	Sam Weihagen	–	–	0%	23%	–
	Manny Fontenla Novoa	96%	80%	0%	–	–
<b>PSP vesting (as % of maximum opportunity)</b>	Harriet Green	–	–	–	See note 6	See note 6
	Sam Weihagen	–	–	0%	0%	–
	Manny Fontenla Novoa	67.5%	0%	0%	–	–

The table above shows the prescribed remuneration data (as shown in the left-hand side column) for the Director(s) undertaking the role of Group Chief Executive Officer during each of the last five financial years.

**Notes**

- Harriet Green was appointed Group CEO on 30 July 2012.
- Sam Weihagen was appointed Group CEO on 3 August 2011 and remained in post until the appointment of Harriet Green.
- Manny Fontenla Novoa stepped down as CEO on 2 August 2011.
- The single figure for FY 2010/11 for Manny Fontenla Novoa includes his termination payment which was a total of £1 166 639 (in respect of contractual entitlements to base salary, pension allowance and benefits in lieu of notice).
- No annual bonus targets were set in respect of the two month period between Harriet Green's appointment in July 2012 and the September 2012 year end.
- There was no PSP award vesting in FY 2011/12 and 2012/13 as none of Harriet Green's awards had yet reached the end of their performance periods.

3  
Financial statements

Let's  
go!

## Transformation the first 365 days

### Governance Report on Directors' Remuneration Annual Remuneration Report continued

#### Percentage change in remuneration of Chief Executive Officer

The table below sets out the percentage change in the remuneration of the Group CEO compared to that of UK-based employees, (including retail and tour operations but excluding any employees whose pay is subject to long-term collective agreements). We have selected this comparator group as the Group CEO is UK-based and this provides a local market reference point, and is a sizeable and fair representation of our employee base. Long-term collective agreements have been excluded to ensure that pay movements within the comparator group are subject to similar external pressures as the Group CEO.

	% change in remuneration from FY11/12 to FY12/13		
	% change in base salary	% change in benefits	% change in annual bonus
Group CEO	0% <sup>1</sup>	See note 3 below	See note 5 below
UK based employees	0% <sup>2</sup>	See note 4 below	See note 6 below

#### Notes

1 The Group CEO Harriet Green was appointed on 30 July 2012. Her salary upon appointment was £680,000 and this has not increased during FY11/12 or FY12/13. Harriet Green's salary on appointment was set at a lower level than her predecessors Sam Weihagen and Manny Fontenla Novoa. Their respective salary rates are shown below.

	Salary rate per annum (£)
Harriet Green (from 30 July 2012)	680,000
Sam Weihagen (3 August 2011 to 30 July 2012)	750,000
Manny Fontenla Novoa (to 2 August 2011)	850,000

2 UK based employees have had their base salary frozen since 2010 due to business challenges and uncertainties similar to the majority of Thomas Cook employees across all segments. Any exceptional or one-off changes to salaries due for example to promotions or role changes within the year have been excluded.

3 The Company has provided the same types and levels of benefits to Harriet Green since her appointment. Given the fact that Harriet Green was only CEO for two months of the prior financial year it is difficult to provide a direct comparison. However, to provide some comparison, Harriet Green's annualised benefits for FY 11/12 were £156,000 (based on £27,000 benefits received in relation to a 63 day period from 30 July 2012) and benefits for the year being reported on (as shown in the single figure table on page 78) were £186,000. A full breakdown of the benefits for the current year is provided on page 79. Harriet Green's predecessor as CEO Sam Weihagen received £93,000 in benefits in the prior year as disclosed in last year's report.

4 The main taxable benefits provided to UK based employees are private medical insurance and car allowance dependent upon seniority. There has been no change in the level of benefits provided.

5 Harriet Green's bonus payment of £1,785,000 shown in the single figure remuneration table on page 78 relates to a 14 month period as CEO (from 30 July 2012 to 30 September 2013) and reflects a period of exceptional performance. Harriet Green did not receive a bonus payment in respect of the prior financial year (having joined the Company as CEO just two months prior to the year end). Therefore a direct comparison against the prior year is not possible. Harriet Green's predecessor as CEO Sam Weihagen was in place for approximately 10 months of the prior financial year and as disclosed in last year's Remuneration Report received a bonus payment of £300,000 for that 10 month period. Sam Weihagen's bonus figure cannot be compared directly to Harriet Green's figure in a manner which permits comparison as Sam Weihagen was an Interim CEO and therefore his package was framed on an entirely different basis to Harriet Green's. As disclosed in last year's Remuneration Report "the bonus arrangement in respect of Sam Weihagen reflected the special circumstances and uncertain tenure of his appointment as Group CEO. As also previously disclosed, Sam Weihagen was awarded 23% of his maximum bonus opportunity for the prior year. Harriet Green has been awarded 100% of her bonus opportunity for the year being reported on reflecting exceptional performance during that period.

6 In order to provide the most direct comparison possible, the Committee considers a focus on all employees participating in the Group annual bonus scheme is appropriate as the performance targets have a "Group" focus similar to the performance targets in place for Harriet Green. It is difficult to provide a meaningful percentage change figure from FY 11/12 to FY 12/13 as the performance of the Company has transformed over this period. For FY 11/12 the financial targets for

the Group annual bonus plan were not met and therefore annual bonus payments were only made in limited exceptional circumstances in respect of the personal targets element of the plan. For FY 2012/13 the Group financial targets have been exceeded and 100% of the maximum opportunity in respect of this element will pay out for all participants. Group financial targets account for 70% of the maximum opportunity. The remaining 30% is in respect of personal targets and performance against these for the employee population will be determined in early December 2013 in line with the usual performance management cycle.

#### Relative importance of spend on pay

The chart below displays the relative expenditure of the Company on various matters as required (in the case of Group employees' pay and shareholder distributions) by the relevant remuneration regulations.

Graph removed

Group underlying EBIT is shown above as this is a key performance indicator for the Company. Overall Director pay has also been included, to give an indication of its context compared to overall employee pay. The figures shown in the table are extracted from the Group's financial statements. The amounts for Group employees' pay and Directors pay both include employer social security payments.

#### Statement of implementation of remuneration policy in the following financial year

The Committee considers that the Company's performance has been exceptional since the appointment of Harriet Green and Michael Healy last year, as evidenced by the excellent delivery of the first stages of our Transformation (measured by a range of metrics) and the Company's Capital Refinancing Plan. The following section of the report sets out the executive remuneration decisions made to support Thomas Cook's delivery of the next stage of our Transformation.

#### 2013/14 base salaries

When reviewing Executive Director salaries in line with our policy stated on page 72, the Committee considers a range of factors including the size and scope of the executive's responsibilities, performance and experience, and pay for other employees in the Company. The Committee also takes a holistic view of total remuneration including the level of variable pay which will vest dependent upon achievement of demanding performance targets as we deliver our Transformation.

The Committee is particularly mindful of the Company's current circumstances, and the broader employee context within the organisation, with some parts of the Group subject to recent pay freezes and redundancy programmes. The Committee also noted the range of views expressed by Shareholders in our meetings this summer.

The Committee believes that the strong leadership, vision and exceptional achievements delivered by Harriet Green justify a salary increase. However, both the Committee and Harriet Green were mindful of the wider pay context, and share the view that it would be inappropriate to award a salary increase at this time to the Group CEO for 2013/14 (the salary rate therefore remains £680,000 p.a.). Instead, the Committee decided that the best way to recognise the CEO's significant performance and achievements throughout the last year and her continued and significant role in the future in the execution of our strategy was to grant an award under the 2013 PSP at the maximum level of 200% of salary in September, as detailed on page 81, rather than by way of a small percentage increase in base pay.

The Committee also recognises the exceptional performance delivered by Michael Healy throughout the past year. In view of his performance, his continued and significant role in the future and in his case, internal relativities with other senior executives, the Committee considered it appropriate to increase his base salary by 4.2% (from £480,000 to £500,000, with effect from 1 October 2013) and make a 2013 PSP award of 187.5% of salary (based on the pre-increase salary of £480,000) as detailed on page 81.

#### 2013/14 annual bonus measures and weightings

As detailed on page 80, the maximum annual bonus opportunity for both Executive Directors for 2013/14 will be 150% of salary.

In line with our Policy, at least 70% of the annual bonus will be linked to the achievement of financial measures and 30% will be linked to role-specific strategic objectives. For 2013/14, the measures will be as follows:

	Measures	Weighting (% overall opportunity)	Harriet Green	Michael Healy
Core measures	Group underlying EBIT	25%	✓	✓
	Group cash conversion	25%	✓	✓
	Web targets	10%	✓	✓
	New product revenue	10%	✓	✓
Role specific strategic objectives	Group "cost out"	10%	✓	✓
	Group "gross margin"	10%	✓	✓
	Organisation and people	10%	✓	✓

The performance measures above were selected to reflect the strategic and transformational objectives of the Group. Along with the 2012 and 2013 Performance Share Plan targets, these measures create full alignment of our reward with our Transformation targets and KPIs, as demonstrated on page 20.

The Committee considers that the targets are commercially sensitive, so these have not been disclosed. We will disclose these targets at such point that the Committee considers they are no longer commercially sensitive.

The Committee considers it is important that all senior executives share in the same strategic targets and KPIs that will focus Thomas Cook on delivery and success. The annual bonus plan described above (with 70% focus on "core measures" which are consistent for all participants and 30% on "role-specific" strategic objectives) is in place for the Executive Directors and other senior executives with responsibility for delivering our Transformation.

#### Performance Share Plan

The Committee granted awards under the PSP to Harriet Green and Michael Healy on 30 September 2013. As these awards were made in the 2012/13 financial year, these are described in detail on page 81.

The Committee will consider the next grant under the PSP for Executive Directors during the course of this year. This award is likely to be made in January 2015 (i.e. it is not intended to make PSP awards to Executive Directors during the financial year ending 30 September 2014).

#### Directors' share and share plan interests

The following tables show the interests of the Directors in the shares of the Company as follows:

- > shares held beneficially
- > shares held as part of the deferred bonus arrangements and
- > share plan interests (under the Performance Share Plan) held by the Executive Directors

#### Shareholding guidelines

Executive Directors are required to hold the Company's shares to the value of 100% of base salary, under the Thomas Cook shareholding guidelines operating policy.

Executive Directors are allowed a build-up period which ends after sufficient awards under the PSP have vested to provide shares to the value of 100% of base salary (after tax has been paid on the shares). Until the shareholding guideline is met, after-tax proceeds of vested PSP shares cannot be sold. At the year-end Harriet Green had met the shareholding guidelines in advance of the end of the build-up period, having acquired a total of 700,000 shares with a value (based on a three-month average share price of £1.36) of 140% of her salary. Michael Healy continues to make progress towards the one times salary holding.

#### Total beneficial holdings of the Directors

The beneficial interests of Directors in the shares of the Company are listed below:

Beneficial holdings	No. shares as at 30 September 2013
<b>Current Directors</b>	
Harriet Green	700,000
Michael Healy	24,001
Frank Meysman	420,000
Dawn Airey	42,000
Emre Berkin	–
Roger Burnell	271,169
Peter Marks	145,051
Martine Verluutten	140,000
<b>Past Non-Executive Director</b>	
Richard Pennycook	–

#### Notes

- The shares shown in the beneficial holdings table above were acquired by the Directors using their own funds and not through any share incentive scheme (or similar) with the exception of Michael Healy's shareholding above which includes 5,753 shares held within the Deferred Bonus Plan (detailed below). Harriet Green purchased 700,000 shares during the year which comprised 500,000 shares purchased on 28 November 2012 and 200,000 shares purchased on 20 June 2013.
- All share interests shown above were unchanged as at 26 November 2013.
- Warren Tucker and Carl Symon were appointed as Non-Executive Directors of the Company on 3 October 2013. They had no beneficial holdings in the Company's shares as at 26 November 2013.

## Transformation the first 365 days

### Governance Report on Directors' Remuneration Annual Remuneration Report continued

#### Deferred Annual Bonus shares

The table below sets out the shares held as part of the Deferred Annual Bonus arrangements, as at 30 September 2013

	Date of purchase	Number of shares acquired	Share price on date of purchase (pence)
Michael Healy	20/06/2013	5,753	125.1
<b>Total</b>		<b>5,753</b>	

Further details of the annual bonus deferral process are described on page 81. No further performance conditions apply. The bonus payment date was March 2013 but the relevant shares were not purchased until the Company ceased to be in a prohibited period (at the conclusion of the Company's Placing and Rights Issue in June 2013). Subject to the conditions described on page 81 (with clawback described on page 74), the shares will be released in March 2014.

#### Performance Share Plan (PSP)

The table below sets out the Directors' PSP interests, as at 30 September 2013

	Scheme	Date of award	Number of shares awarded <sup>(1)</sup>	Share price on date of award (pence)	Earliest vesting date	Performance measures
Harriet Green	PSP	28/09/2012	7195,316	17.5	28/09/2015	Subject to share price and financial performance measures: further detail available in the 2011/12 Directors' Remuneration Report and in notes 1 and 2 below
	PSP	30/09/2013	922,033	153.4	30/09/2016	Subject to share price and financial performance measures: as set out on page 81
	<b>Total</b>		<b>8,117,349</b>			
Michael Healy	PSP	12/06/2012	576,780	16.5	12/06/2015	Subject to share price: further detail available in the 2011/12 Directors' Remuneration Report and in note 1 below
	PSP	28/09/2012	2,307,120	17.5	28/09/2015	Subject to share price and financial performance measures: further detail available in the 2011/12 Directors' Remuneration Report and in notes 1 and 2 below
	PSP	30/09/2013	610,169	153.4	30/09/2016	Subject to share price and financial performance measures: as set out on page 81
	<b>Total</b>		<b>3,494,069</b>			

#### Notes

- The Company undertook a Rights Issue as part of its Capital Refinancing in June 2013. This impacted upon the Company's outstanding share awards made before this date in line with usual market practice: the number of shares in the awards have been adjusted to ensure that participants were no better or worse off as a result of the Rights Issue. For reference the unadjusted numbers of shares as provided in last year's report were as follows: Harriet Green's September 2012 PSP award was 6,237,488 shares and Michael Healy's June and September 2012 PSP awards were 500,000 and 2,000,000 shares respectively. (The share price on date of grant in the table above is shown on the same basis as last year's report (i.e. on an unadjusted basis).) In addition, the Committee also considered that it was necessary to adjust the share price targets set in relation to the June 2012 and September 2012 PSP awards to ensure that the targets remain equally as challenging as when they were originally set. The adjustments used were calculated using the standard formula, taking into account the terms of the Rights Issue. The adjustments were applied to all outstanding awards held by employees. The principles of the adjustments were discussed with our major shareholders who were supportive.
- The September 2012 PSP awards made to Executive Directors were disclosed in the 2011/12 Directors' Remuneration Report. The share price targets were set at the time the award was made and also disclosed in the report. However, the Committee considered that the financial performance conditions attached to the award needed to be relevant to the task ahead, including creating value for shareholders and delivering the Transformation, although at the time of making the award the strategy had not yet been developed. Accordingly, it was determined and agreed with major shareholders that the financial targets would be set after the announcement of the new strategy. In consultation with major shareholders as discussed on pages 66 and 76 the financial performance measures and targets were set as described in the table below. The weightings of the performance conditions described in the table below for Michael Healy describe the overall 2012 award (i.e. June 2012 and September 2012).

Share price (45% of the overall award)					Group underlying EBIT (30% of the overall award)			Cash conversion (25% of the overall award)		
Performance level	Applies to 45% of Michael Healy's award and 25% of Harriet Green's award		Applies to 20% of Harriet Green's award only		Performance level	Group underlying EBIT	Vesting (% of this portion)	Performance level	Cash conversion	Vesting (% of this portion)
	Share price (as adjusted for the Rights Issue)	Vesting (% of this portion)	Share price (as adjusted for the Rights Issue)	Vesting (% of this portion)						
Maximum	86.69p	100%	121.36p	100%	Maximum	See below	100%	Maximum	65%	100%
Threshold	26.01p	30%	48.55p	0%	Threshold		30%	Threshold	55%	30%
Share price performance is measured as the highest 60 day average share price achieved in the final year of the performance period. As described on pages 81 and 87 this approach has been amended for the 2013 PSP awards.					Group underlying EBIT performance in respect of FY15, which is the final year of the three year performance period. Group underlying EBIT excludes exceptional items.			Cash conversion performance measured in respect of FY15 cash conversion, which is the final year of the three year performance period. Cash conversion is defined as free cash flow post exceptional items, before capital expenditure/EBITDA.		



At the time the performance targets were set, the Committee considered that these were challenging. The Company's share price when Harnet Green joined on 30 July 2012 was 16.25 pence and in September 2012 when these share price targets were being set it remained around the same level. Therefore even the threshold target represented a significant increase. Maximum achievement of the cash conversion target would exceed our then publicly stated FY15 target of 60% (subsequently increased to 70% reflecting the pace and extent of progress in respect of the Transformation – see pages 20 and 71).

The Committee also considers the Group underlying EBIT targets to be stretching, however due to our ambitious plans for the business Transformation we consider that these targets are commercially sensitive at this point. We commit to disclosing the target range on a retrospective basis at the end of the performance period. We have discussed this approach with our major Shareholders who are supportive.

The Committee has reviewed where the Company's performance to date is tracking in relation to the targets and is satisfied that overall the plan continues to provide sufficient levels of incentivisation to participants.

The scheme interests shown in the tables above (the Deferred Annual Bonus shares and the PSP) were unchanged as at 26 November 2013.

### Statement of Shareholder voting

The table below sets out the results of the vote on the Remuneration Report at the 2013 AGM.

Votes for		Votes against		Votes cast		Votes withheld	
Number	%	Number	%				
307,213,359	70.3	129,898,306	29.7	437,111,665		26,050,879	

Both the Chairman of the Board and the Chairman of the Remuneration Committee contacted key Shareholders to understand and address concerns. Specific issues raised by investors included:

- The approach to share price measurement for the 2012 PSP targets was based on the highest 60-day average share price achieved in the final year of the performance period. Some Shareholders considered that this is retesting.
- A number of Shareholders were not supportive of absolute share price targets in general for performance share plans.

Actions taken in response to these concerns were:

- As described on page 66 of the Corporate Governance Report, Frank Meysman and Roger Burnell met with a number of major Shareholders who had voted against the Remuneration Report last year, to listen to their reasons why they exercised their votes in this way.
- As described on page 76, the Chairman of the Board and the Chairman of the Remuneration Committee met with key Shareholders representing over 50% of our share capital in June and July 2013 to consult in respect of the remuneration policy and the performance measures in respect of the PSP, amongst other matters (described in more detail on page 76).
- In these meetings, the rationale for the continued use of absolute share price targets was explained to Shareholders. This is on the basis that we expect the upward trajectory of our share price

recovery to continue for some time. This makes measuring percentage growth relative to other companies less challenging than the absolute "pence" targets. In addition, the continued suspension of Thomas Cook's dividend means that Total Shareholder Return (which is share price plus dividends) is a less relevant measure than share price. On this basis, major Shareholders were supportive of our continued use of an absolute (rather than relative) share price measure for our September 2013 awards. The Committee agreed to reconsider the appropriateness of relative Total Shareholder Return as a performance measure for the next awards under the PSP which are not currently envisaged to be granted until early 2015.

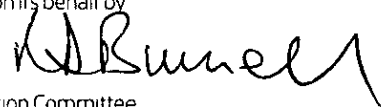
- A revised approach to share price measurement was taken for the September 2013 PSP awards. As described on page 81, this will measure the average share price performance over the fixed period of 30 trading days from the release of the preliminary FY16 results, with the intention of capturing the market's reaction to our results announcement. Shareholders were consulted on the revised approach. They were appreciative that the Committee had addressed their concerns on this matter and were supportive of the revised approach.

### Auditable sections of the Annual Report on Remuneration

The auditable sections of the Annual Remuneration Report are shown on page 78 (Single figure of total remuneration section, onwards) to page 82 (up to and including the section on Non-Executive Directors) and on page 85 (Total beneficial holdings section, onwards) to page 87 (up to and including the Performance Share Plan section).

This Annual Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

**Roger Burnell**  
Chairman, Remuneration Committee  
27 November 2013



## Transformation the first 365 days

# Governance: Other disclosures

## Share capital

The Company has the following three classes of shares in issue

Name	Number of shares in issue at 30 September 2013
Ordinary Shares of €0.01 each	1 453,403 227
Deferred Shares of €0.09 each	934 981 938
Deferred Shares of £1 each	50 000

The Ordinary Shares carry the right to the profits of the Company available for distribution and to the return of capital on a winding up of the Company. The Ordinary Shares carry the right to attend and speak at general meetings of the Company, each share holds the right to one vote. The Ordinary Shares are admitted to trading on the Official List of the London Stock Exchange. Both classes of Deferred Shares carry no right to the profits of the Company. On a winding up, the holders of the sterling-denominated Deferred Shares would be entitled to receive an amount equal to the capital paid up on each sterling denominated Deferred Share and the holders of the euro denominated Deferred Shares would be entitled to receive an amount equal to the capital paid up on each euro-denominated Deferred Share only after the holders of the Ordinary Shares and sterling denominated Deferred Shares have received in aggregate the amounts paid up thereon. The holders of both classes of Deferred Shares are not entitled to receive notice, attend, speak or vote (whether on a show of hands or on a poll) at general meetings of the Company.

As part of the £200 million bank facility announced on 25 November 2011, the Company issued Warrants to certain of its lenders giving holders the right, at any time until 22 May 2015, to subscribe for up to an aggregate of 42,914 639 Ordinary Shares (representing approximately 4.9% of the issued share capital of the Company at the date of issue) at a subscription price per share of 19.875 pence.

On 10 May 2012, the Company issued Warrants as part of the bank facility amendment announced on 5 May 2012 to certain of its lenders, giving holders the right, at any time until 22 May 2015, to subscribe for up to an aggregate of 43,749,517 Ordinary Shares, representing approximately 5.0% of the issued share capital of the Company at the date of issue, (subsequently increased by 4,440 376 Ordinary Shares to reflect the Company's Rights Issue and Placing in June 2013) at a subscription price per share of €0.10 (subsequently adjusted to €0.0857282 to reflect the Company's Rights Issue and Placing in June 2013). In addition, the Warrants issued as part of the bank facility announced in November 2011 were re-priced to the same exercise price. As at 26 November 2013, 17 Warrant holders had exercised their Subscription Rights in respect of 81 974,478 Warrants (exercised into Ordinary Shares on a one-for-one basis).

## Articles of Association

The Company's Articles of Association (the "Articles") may only be amended by a special resolution at a general meeting of Shareholders. The Articles are available on the Company's website at [www.thomascookgroup.com](http://www.thomascookgroup.com)

## Authority to purchase shares

The Company currently does not have authority to purchase its own shares.

## Share transfer restrictions

The Articles are designed to ensure that the number of the Company's shares held by non-EEA nationals does not reach a level which could jeopardise the Company's entitlement to continue to hold or enjoy the

benefit of any authority, permission, licence or privilege which it or any of its subsidiaries, holds or enjoys and which enables an air service to be operated (each an "Operating Right"). In particular, EC Council Regulation 1008/2008 on the licensing of air carriers requires that an air carrier must be majority-owned and effectively controlled by EEA nationals.

The Articles allow the Directors, from time to time, to set a "Permitted Maximum" on the number of the Company's shares which may be owned by non-EEA nationals at such level as they believe is in compliance with the Operating Rights, provided that the Permitted Maximum shall not be less than 40% of the total number of issued shares.

The Company maintains a separate register (the "Separate Register") of shares in which non-EEA nationals, whether individuals, bodies corporate or other entities have an interest (such shares are referred to as "Relevant Shares" in the Articles). An interest in this context is widely defined (see below). The Directors may require relevant members or other persons to provide them with information to enable them to determine whether shares are, or are to be treated as Relevant Shares. If such information is not provided, then the Directors will be able, at their discretion, to determine that shares to which their enquiries relate be treated as Relevant Shares. Registered shareholders will also be obliged to notify the Company if they are aware either (a) that any share they hold ought to be treated as a Relevant Share for this purpose or (b) that any share they hold which is treated as a Relevant Share should no longer be so treated. In this case, the Directors shall request such information and evidence as they require to satisfy themselves that the share should not be treated as a Relevant Share and, on receipt of such evidence, shall remove particulars of the share from the Separate Register. If the Directors determine that such action is necessary to protect any Operating Right due to the fact that an Intervening Act (an "Intervening Act" being the refusal, withholding, suspension or revocation of any Operating Right or the imposition of materially inhibiting conditions or limitations on any Operating Right in either case, by any state or regulatory authority) has taken place or is contemplated, threatened or intended, or the aggregate number of Relevant Shares is such that an Intervening Act may occur or the ownership or control of the Company is such that an Intervening Act may occur, the Directors may, among other things:

- identify those shares that give rise to the need to take action and treat such shares as affected shares ("Affected Shares") (see below) or
- set a Permitted Maximum on the number of Relevant Shares that may subsist at any time (which may not, save in the circumstances referred to below, be lower than 40% of the total number of issued shares) and treat any Relevant Shares in excess of this Permitted Maximum as Affected Shares (see below). The Directors may serve a notice (an "Affected Share Notice") in respect of any Affected Share. An Affected Share Notice can, if it so specifies, have the effect of depriving the registered holder of the right to attend, vote and speak at general meetings which they would otherwise have had as a consequence of holding such shares. Such an Affected Share Notice can, if it so specifies, also require the recipient to dispose of the Affected Shares (so that the Relevant Shares will then cease to be Affected Shares) within 21 days or such longer period as the Directors may determine. The Directors are also given the power to sell such Affected Shares themselves where there is non-compliance with an Affected Share Notice at the best price reasonably obtainable at the relevant time on behalf of the shareholder.

In deciding which shares are to be dealt with as Affected Shares, the Directors, in their sole opinion, will determine which Relevant Shares may give rise to the fact of risk of an Intervening Act occurring and, subject to any such determination, will have regard to the chronological order in which particulars of Relevant Shares have been, or are to be, entered

in the Separate Register unless to do so would, in the sole opinion of the Directors, be inequitable. If there is a change in any applicable law or the Company or any subsidiary receives any direction, notice or requirement from any state or regulatory authority which, in either case, necessitates such action to overcome, prevent or avoid an Intervening Act, then the Directors may either

- > lower the Permitted Maximum to the minimum extent that they consider necessary to overcome, prevent or avoid an Intervening Act, or
- > resolve that any Relevant Shares shall be treated as Affected Shares. The rights of the Directors referred to above apply until such time as the Directors resolve that grounds for the making of a determination have ceased to exist, whereupon the Directors must withdraw such determination. The Permitted Maximum is set at 40%. This Permitted Maximum may be varied by the Directors. If the Directors resolve to vary the Permitted Maximum to deal with shares as Affected Shares or relax the ownership limitations, they shall publish in at least one national newspaper in the UK (and in any other country in which the shares are listed) notice of the determination and of any Permitted Maximum.

The Directors shall publish, from time to time

- > information as to the number of shares particulars of which have been entered on the Separate Register, and
- > any Permitted Maximum that has been specified.

As at 25 November 2013, 340,658,793 Ordinary Shares (23.44%) were held on the Separate Register.

The Directors may not register any person as a holder of shares unless such person has furnished to the Directors a declaration, together with such evidence as the Directors may require, stating (a) the name and nationality of any person who has an interest in any such share and, if the Directors require, the nature and extent of such interest or (b) such other information as the Directors may from time to time determine.

The Directors may decline to register any person as a Shareholder if satisfactory evidence of information is not forthcoming. Existing holders of shares will be recorded on the Special Register unless and until they have certified to the satisfaction of the Company that they are EEA nationals.

A person shall be deemed to have an interest in relation to Thomas Cook Group plc shares if

- > such person has an interest that would (subject as provided below) be taken into account or which they would be taken as having, in determining for the purposes of Part 22 of the Companies Act 2006 whether a person has a notifiable interest; or
- > they have any such interest as is referred to in Part 22 of the Companies Act 2006 but shall not be deemed to have an interest in any shares in which their spouse or any infant, child or stepchild (or, in Scotland, pupil or minor) of theirs is interested by virtue of that relationship or which they hold as a bare or custodian trustee under the laws of England, or as a simple trustee under the laws of Scotland, and interest shall be construed accordingly.

## Provisions of change of control

The Company has a facilities agreement (the "Agreement") in place which consists of £300 million revolving credit facility and £200 million bilateral bonding and guarantee facilities and a euro-equivalent of £191 million additional facility. The Agreement provides that, on any change of control of the Company, the Lenders under the Agreement are obligated to negotiate (for a period not exceeding 30 days, unless extended by agreement for a further period not exceeding 30 days)

terms for continuing the facilities but, where agreement on new terms cannot be reached, any such Lender is entitled to: (i) receive a repayment of amounts owing to such Lender; and/or (ii) cancel all of its commitments under the Agreement.

The Company's subsidiary, Thomas Cook Finance plc, has outstanding €525 million 7.75% guaranteed notes due 2020. On the occurrence of certain change of control events relating to the Company, each holder has the option to require Thomas Cook Finance plc (the issuer of these bonds) to repurchase all or any part of the holders' notes at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest.

The Company also has outstanding €400 million 6.75% guaranteed notes due 2015 and £300 million 7.75% guaranteed notes due 2017 (together, the "Notes"). Upon the occurrence of certain change of control events relating to the Company (and then only if certain rating conditions in respect of the relevant Notes are met), each holder has the option to require the Company to redeem or (at the option of the Company) to purchase the Notes of such holder at par value plus accrued interest.

## Political donations

The Company did not make any political donations during the financial year (2012: nil).

## Major shareholdings

As at 26 November 2013, the Company had been notified, in accordance with rule 5 of the Disclosure Rules and Transparency Rules of the UK Listing Authority of the following major shareholdings in the Ordinary Share capital of the Company:

Name	Number of shares held as at 26/11/2013	Percentage of issued capital (%) as at 26/11/2013	Number of shares held as at 26/12/2012	Percentage of issued capital (%) as at 26/12/2012
Invesco Ltd	156,195,950	10.74	149,209,379	16.75
BlackRock Inc	72,899,276	5.02	42,946,657	4.82
Marathon Asset Management LLP	69,384,130	4.77	59,283,472	6.65
Kames Capital	58,370,332	4.02	—	—

## Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as auditors of the Company. Upon the recommendation of the Audit Committee, resolutions to re-appoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed to the 2014 Annual General Meeting.

The Strategic Report and Directors' Report comprising pages 8 to 89 have been approved and are signed by order of the Board by

**Derek Woodward**  
Group Company Secretary  
27 November 2013

**Registered office**  
3rd floor, South Building  
200 Aldersgate  
London  
EC1A 4HD

**Registered number**  
6091951

*Let's go!*

## Transformation the first 365 days

# Independent auditors' report to the members of Thomas Cook Group plc

## Report on the financial statements

### Our opinion

In our opinion

- > The financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2013 and of the Group's loss and of the Group's and Parent Company's cash flows for the year then ended
- > The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- > The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- > The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

This opinion is to be read in the context of what we say below

### What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Thomas Cook Group plc, comprise

- > the Group and Parent Company balance sheets as at 30 September 2013,
- > the Group income statement and statement of comprehensive income for the year then ended,
- > the Group and Parent Company statements of changes in equity and cash flow statements for the year then ended, and
- > the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts, (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (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 Group's and Parent 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

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

## Overview of our audit approach

### Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £1.5m. In arriving at this judgement we have had regard to underlying profit from operations because, in our view, this is the metric against which the performance of the Group is most commonly measured

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

### Overview of the scope of our audit

The Group is currently organised into four geographic operating divisions: UK, Continental Europe, Northern Europe and Airlines Germany. The Group financial statements are a consolidation of 97 reporting units comprising the Group's operating businesses within these divisions and centralised functions

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole

The reporting units vary significantly in size and we identified 21 reporting units that, in our view, required an audit of their complete financial information, due to their size or risk characteristics, providing 85% coverage of the Group's underlying profit from operations

Specific audit procedures on certain balances and transactions were performed at a further two reporting units, comprising the Group's internal IT development company (because of material internally generated intangible assets) and Russian operations (because of its size)

### Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks and particular areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 61

**Carrying value of goodwill and deferred tax assets**

The Group holds significant goodwill and deferred tax assets on the balance sheet and significant goodwill impairments were recorded during the prior year

We focused on this area as it involves complex and subjective judgements by the Directors about the future results of the business

**How the scope of our audit addressed this area of focus**

In evaluating whether any impairment was necessary to the remaining carrying value of goodwill, our audit work involved obtaining evidence regarding its recoverable amount and how it compared to the amount at which goodwill is currently recorded

We evaluated the Directors' goodwill impairment calculations (including the value in use computations and discount rate) and tested both the methodology and the assumptions applied including a critical review of the historical accuracy of forecasts and budgets. We applied sensitivity analysis to the calculations to assess the impact of variations in the key assumptions, which included the forecast underlying profit before tax

We considered the Directors' assessment of the recoverability of deferred tax assets by evaluating the likelihood of achieving expected taxable profits against which such assets are to be utilised

**Risk of management override of internal controls**

ISAs (UK & Ireland) require that we consider this

**How the scope of our audit addressed this area of focus**

We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions and interviewed senior management and the Group's internal audit function

We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud

This included testing manual journal entries and evaluating significant accounting estimates (for example goodwill value in use computations) for evidence of biased judgements

**Risk of fraud in revenue recognition**

ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. Because of this, we focused on the timing of revenue recognition, given the level of deferred revenue at certain times of the year, and its presentation in the income statement

**How the scope of our audit addressed this area of focus**

We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements

We tested journal entries posted to revenue accounts to identify any unusual or irregular items. We also tested the reconciliations between the revenue systems used by the Group and its financial ledgers

We tested the deferral of revenue where cash was received in advance of travel services being provided

We assessed whether the Group's revenue recognition policies complied with the IFRSs as adopted by the EU, and tested that in accordance with those policies, revenue was recognised based on the date of customer departure. We also tested whether the Group appropriately recorded revenue based on whether it acted as agent or principal

**Going concern**

This was considered to be an area of audit focus due to the seasonal nature of the Group's cash flow

**How the scope of our audit addressed this area of focus**

We evaluated whether the Group's forecast of funding requirements had taken appropriate account of the seasonal cash flows inherent in the Group's business

We evaluated the key judgements within the Group's forecast including transformation activities and 'cost out' initiatives

We considered the adequacy of the Group's revised financing structure, including forecast compliance with financial covenants, and assessed the sensitivity of the Directors' calculations to changes in key inputs, in particular forecast underlying profit before tax

Our conclusion on going concern is below

**Aircraft leases and maintenance provisions**

Material assets and provisions for leased aircraft and their related maintenance are held on the balance sheet. This was an area of focus based on the size of these balances, which have increased following recent sale and leaseback transactions

**How the scope of our audit addressed this area of focus**

We reviewed the appropriateness of the maintenance provision calculations performed by management, including the assessment of new obligations and key assumptions such as the quantum and timing of maintenance expenditure

We reviewed aircraft lease contracts to ensure that they have been appropriately accounted for as operating or finance leases

**Risks associated with the Group's transformation programme**

The Group's transformation programme has given rise to significant changes to the Group's control environment and a number of accounting estimates involving subjective judgements, including store closure and redundancy provisions, and asset disposals

**How the scope of our audit addressed this area of focus**

We increased our testing of balances materially impacted by the transformation programme, evaluating management's judgements used in estimating the related provisions

We have performed additional testing where key processes and controls have been affected by transformation activities during the year

**Going concern**

Under the Listing Rules we are required to review the Directors' statement, set out on page 69, in relation to going concern. We have nothing to report having performed our review

As noted in the directors' statement, the Directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Parent Company's ability to continue as a going concern

## Transformation the first 365 days

### Independent auditors' report to the members of Thomas Cook Group plc continued

#### Opinions on matters prescribed by the Companies Act 2006

In our opinion

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements,
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Corporate Governance Statement set out on pages 50 to 69 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

#### Other matters on which we are required to report by exception

##### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept by the Parent Company or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited 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 if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities

##### Corporate Governance Statement

Under the Companies Act 2006, we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the Parent Company. We have no exceptions to report arising from this responsibility

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review

On page 69 of the Annual Report as required by the Code Provision C 1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 61 as required by C3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit, or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

We have no exceptions to report arising from this responsibility

#### Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited financial statements, or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit, or
- is otherwise misleading

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 Directors' Responsibilities Statement set out on page 69, the Directors are responsible for the preparation of the Group and Parent Company 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 Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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



**Paul Cragg (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors

London

27 November 2013

# Group income statement

For the year ended 30 September 2013

		Year ended 30 September 2013			Restated Year ended 30 September 2012		
	notes	Underlying results £m	Separately disclosed items (note 7) £m	Total £m	Underlying results £m	Separately disclosed items (note 7) £m	Total £m
<b>Continuing operations</b>							
Revenue	3	9,314 5	–	9,314 5	9,195 0	–	9,195 0
Cost of providing tourism services	4	(7,255 7)	(38 5)	(7,294 2)	(7,169 2)	5 6	(7,163 6)
<b>Gross profit</b>		<b>2,058 8</b>	<b>(38 5)</b>	<b>2,020 3</b>	<b>2 025 8</b>	<b>5 6</b>	<b>2 031 4</b>
Personnel expenses	5	(1,035 7)	(40 2)	(1,075 9)	(1,067 6)	(39 5)	(1 107 1)
Depreciation and amortisation	13/14	(161 7)	(10 0)	(171 7)	(155 6)	(12 3)	(167 9)
Net operating expenses	6	(598 3)	(122 4)	(720 7)	(625 6)	(101 4)	(727 0)
(Loss)/profit on disposal of assets		–	(8 0)	(8 0)	–	19 1	19 1
Impairment of goodwill and amortisation of business combination intangibles	13	–	(31 0)	(31 0)	–	(218 6)	(218 6)
<b>Profit/(loss) from operations</b>	3	<b>263 1</b>	<b>(250 1)</b>	<b>13 0</b>	<b>177 0</b>	<b>(347 1)</b>	<b>(170 1)</b>
Share of results of associates and joint venture	15	0 7	–	0 7	2 1	–	2 1
Loss on disposal of associates and joint venture	7	–	(0 4)	(0 4)	–	(0 9)	(0 9)
Net investment income	15	0 4	–	0 4	0 4	–	0 4
Finance income	8	6 4	41 2	47 6	6 7	41 4	48 1
Finance costs	8	(152 4)	(67 0)	(219 4)	(129 9)	(86 5)	(216 4)
<b>Profit/(loss) before tax</b>	9	<b>118 2</b>	<b>(276 3)</b>	<b>(158 1)</b>	<b>56 3</b>	<b>(393 1)</b>	<b>(336 8)</b>
Tax	10			(49 5)			(104 1)
<b>Loss for the year from continuing operations</b>				<b>(207 6)</b>			<b>(440 9)</b>
<b>Discontinued operations</b>							
Profit/(loss) for the year from discontinued operations	28			0 3			(149 2)
<b>Loss for the year</b>				<b>(207 3)</b>			<b>(590 1)</b>
Attributable to							
<b>Owners of the parent</b>				<b>(199 0)</b>			<b>(585 7)</b>
<b>Non-controlling interests</b>				<b>(8 3)</b>			<b>(4 4)</b>
				<b>(207 3)</b>			<b>(590 1)</b>
<b>Basic and diluted loss per share (pence)</b>	12						
Continuing operations				<b>(16 7)</b>			<b>(50 1)</b>
Discontinued operations				–			<b>(17 1)</b>
<b>Total</b>				<b>(16 7)</b>			<b>(67 2)</b>

1 Strategic report

2 Directors' report

3 Financial statements

**Transformation** the first 365 days

## Group statement of other comprehensive income

For the year ended 30 September 2013

	notes	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
<b>Loss for the year</b>		<b>(207.3)</b>	<b>(590.1)</b>
<b>Other comprehensive income and expense</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial loss on defined benefit pension schemes	35	(77.2)	(35.7)
Tax on actuarial losses	26	(0.2)	12.3
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign exchange translation losses	30	(19.6)	(30.7)
<b>Fair value gains and losses</b>			
Losses deferred for the year	30	(13.8)	(31.9)
Tax on losses deferred for the year	26	1.9	7.7
Losses/(gains) transferred to the income statement	30	8.6	(48.4)
Tax on losses/(gains) transferred to the income statement	26	(1.0)	12.1
<b>Total comprehensive expense for the year</b>		<b>(308.6)</b>	<b>(704.7)</b>
Attributable to			
<b>Equity holders of the parent</b>		<b>(300.3)</b>	<b>(700.5)</b>
<b>Non-controlling interests</b>		<b>(8.3)</b>	<b>(4.2)</b>
<b>Total comprehensive expense for the year</b>		<b>(308.6)</b>	<b>(704.7)</b>



# Group cash flow statement

For the year ended 30 September 2013

	notes	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
<b>Continuing operations</b>			
<b>Loss before tax</b>		<b>(158 1)</b>	<b>(336 8)</b>
<i>Adjustments for</i>			
Net finance costs		171 8	168 3
Net investment income and share of results of associates and JV		(1 1)	(2 5)
Loss on disposal of associates and joint venture		0 4	0 9
Depreciation, amortisation and impairment		224 6	408 5
Loss/(profit) on disposal of assets		8 0	(19 1)
Share-based payments		7 5	1 9
Write up of investments		(29 0)	-
Increase in provisions		3 7	23 2
Income received from other non-current investments		0 4	0 4
Additional pension contributions		(26 0)	(22 6)
Interest received		6 7	5 8
Decrease/(increase) in working capital			
Inventories		(1 4)	6 7
Receivables		111 8	38 3
Payables		82 9	(86 2)
<b>Cash generated from operations</b>		<b>402 2</b>	<b>186 8</b>
Income taxes paid		(31 0)	(28 3)
Net cash used in discontinued operating activities	28	(30 1)	(6 6)
<b>Net cash from operating activities</b>		<b>341 1</b>	<b>151 9</b>
Dividends received from associates		2 5	-
Proceeds on disposal of JV		0 3	-
Proceeds on disposal of subsidiaries (net of cash disposed)	16	(37 8)	122 7
Proceeds on disposal of property, plant and equipment		4 0	34 0
Purchase of subsidiaries (net of cash acquired)	16	(2 4)	32 4
Purchase of tangible assets		(102 8)	(96 9)
Purchase of intangible assets		(47 5)	(41 4)
Proceeds from other investments		1 9	1 9
<b>Net cash (used in)/from investing activities</b>		<b>(181 8)</b>	<b>52 7</b>
Interest paid		(137 5)	(116 5)
Dividends paid		-	(32 7)
Dividends paid to non-controlling interests		-	(0 6)
Draw down of borrowings		1,369 5	869 2
Repayment of borrowings		(1,083 6)	(930 5)
Payment of facility set-up fees		(37 9)	(29 3)
Proceeds on sale and finance leaseback		-	189 4
Shares purchased by Employee Benefit Trust		(16 1)	-
Net proceeds on the issue of ordinary shares	29	413 5	0 8
Repayment of finance lease obligations		(32 3)	(23 5)
<b>Net cash from/(used in) financing activities</b>		<b>475 6</b>	<b>(73 7)</b>
<b>Net increase in cash and cash equivalents</b>		<b>634 9</b>	<b>130 9</b>
Cash and cash equivalents at beginning of year		453 5	341 7
Effect of foreign exchange rate changes		2 0	(19 1)
<b>Cash, cash equivalents and overdrafts at end of year</b>		<b>1,090 4</b>	<b>453 5</b>

1  
Strategic report

2  
Directors' report

3  
Financial statements

Let's  
go!

**Transformation** the first 365 days

## Group balance sheet

At 30 September 2013

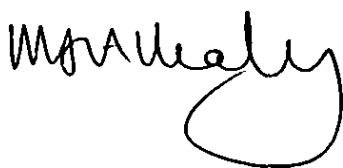
	notes	30 September 2013 £m	30 September 2012 £m
<b>Non-current assets</b>			
Intangible assets	13	3,154.5	3,158.9
Property, plant and equipment			
– aircraft and aircraft spares	14	602.9	599.6
– other	14	198.0	241.2
Investments in associates and joint venture	15	14.4	14.2
Other investments	15	1.2	11.4
Deferred tax assets	26	168.0	204.7
Tax assets		–	5.6
Trade and other receivables	18	142.7	146.8
Derivative financial instruments	23	0.1	0.2
		4,281.8	4,382.6
<b>Current assets</b>			
Inventories	17	28.2	30.5
Tax assets		5.5	50.1
Trade and other receivables	18	785.4	944.1
Derivative financial instruments	23	25.0	39.2
Cash and cash equivalents	19	1,088.8	460.3
		1,932.9	1,524.2
<b>Assets held for sale</b>	28	70.1	–
<b>Total assets</b>		6,284.8	5,906.8
<b>Current liabilities</b>			
Retirement benefit obligations	35	(1.3)	(6.8)
Trade and other payables	20	(1,995.2)	(2,008.5)
Borrowings	21	(176.5)	(37.8)
Obligations under finance leases	22	(42.7)	(32.6)
Tax liabilities		(41.0)	(90.4)
Revenue received in advance		(1,120.2)	(1,094.1)
Short-term provisions	27	(246.8)	(201.5)
Derivative financial instruments	23	(63.9)	(68.4)
		(3,687.6)	(3,540.1)
<b>Liabilities related to assets held for sale</b>	28	(17.0)	–

	notes	30 September 2013 £m	30 September 2012 £m
<b>Non-current liabilities</b>			
Retirement benefit obligations	35	(403 1)	(324 0)
Trade and other payables	20	(96 9)	(95 4)
Long-term borrowings	21	(1,113 8)	(977 6)
Obligations under finance leases	22	(181 8)	(200 6)
Non current tax liabilities		(8 2)	(1 0)
Revenue received in advance		–	(2 5)
Deferred tax liabilities	26	(52 8)	(89 7)
Long-term provisions	27	(172 2)	(214 3)
Derivative financial instruments	23	(3 3)	(3 7)
		(2,032 1)	(1 908 8)
<b>Total liabilities</b>		<b>(5,736 7)</b>	<b>(5 448 9)</b>
<b>Net assets</b>		<b>548 1</b>	<b>457 9</b>
<b>Equity</b>			
Called-up share capital	29	68 4	60 0
Share premium account		434 3	29 2
Merger reserve		1,546 5	1,546 5
Hedging and translation reserves	30	201 8	225 7
Capital redemption reserve		8 5	8 5
Retained earnings deficit		(1,720 7)	(1 450 0)
Investment in own shares		(29 5)	(13 4)
<b>Equity attributable to owners of the parent</b>		<b>509 3</b>	<b>406 5</b>
Non-controlling interests		38 8	51 4
<b>Total equity</b>		<b>548 1</b>	<b>457 9</b>

The financial statements on pages 93 to 147 were approved by the Board of Directors on 27 November 2013

Signed on behalf of the Board

**Michael Healy**  
Group Chief Financial Officer



1  
Strategic report

2  
Directors report

3  
Financial statements

**Transformation** the first 365 days

## Group statement of changes in equity

For the year ended 30 September 2013

	Share capital & share premium £m	Other reserves £m	Translation & hedging reserve £m	Accumulated losses £m	Attributable to equity holders of the parent £m	Non controlling interests £m	Total £m
<b>Opening balance at 1 October 2011</b>	88.4	1,613.0	316.9	(871.4)	1,146.9	36.3	1,183.2
<b>Loss for the year</b>	–	–	–	(585.9)	(585.9)	(4.2)	(590.1)
<b>Other comprehensive expense</b>							
Foreign exchange translation losses	–	–	(30.7)	–	(30.7)	–	(30.7)
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	–	(23.4)	(23.4)	–	(23.4)
Fair value gains and losses							
Loss deferred for the year (net of tax)	–	–	(24.2)	–	(24.2)	–	(24.2)
Gains transferred to the income statement (net of tax)	–	–	(36.3)	–	(36.3)	–	(36.3)
<b>Total comprehensive expense for the year</b>	–	–	(91.2)	(609.3)	(700.5)	(4.2)	(704.7)
Equity credit in respect of share based payments	–	–	–	2.0	2.0	–	2.0
Purchase of own shares	–	(0.1)	–	–	(0.1)	–	(0.1)
Issue of shares	0.8	–	–	–	0.8	–	0.8
Release of merger reserve	–	(71.3)	–	71.3	–	–	–
Derecognition of put options to non-controlling interests	–	–	–	18.8	18.8	–	18.8
Acquisition of Co op	–	–	–	(61.4)	(61.4)	36.7	(24.7)
Disposal of HCV	–	–	–	–	–	(2.9)	(2.9)
Disposal of Thomas Cook India	–	–	–	–	–	(11.4)	(11.4)
Exchange difference on non controlling interests	–	–	–	–	–	(2.5)	(2.5)
Dividends	–	–	–	–	–	(0.6)	(0.6)
<b>At 30 September 2012</b>	89.2	1,541.6	225.7	(1,450.0)	406.5	51.4	457.9
<b>Loss for the year</b>	–	–	–	(199.0)	(199.0)	(8.3)	(207.3)
<b>Other comprehensive expense</b>							
Foreign exchange translation losses	–	–	(19.6)	–	(19.6)	–	(19.6)
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	–	(77.4)	(77.4)	–	(77.4)
Fair value gains and losses							
Loss deferred for the year (net of tax)	–	–	(11.9)	–	(11.9)	–	(11.9)
Gains transferred to the income statement (net of tax)	–	–	7.6	–	7.6	–	7.6
<b>Total comprehensive expense for the year</b>	–	–	(23.9)	(276.4)	(300.3)	(8.3)	(308.6)
Equity credit in respect of share-based payments	–	–	–	7.9	7.9	–	7.9
Issue of shares – exercise of warrants	4.6	–	–	–	4.6	–	4.6
Issue of shares – rights issue	431.0	–	–	–	431.0	–	431.0
Issue of shares – rights issue transaction costs	(22.1)	–	–	–	(22.1)	–	(22.1)
Investment in Employee Benefit Trust	–	(16.1)	–	–	(16.1)	–	(16.1)
Acquisition of Russia shares	–	–	–	(2.2)	(2.2)	(4.3)	(6.5)
<b>At 30 September 2013</b>	502.7	1,525.5	201.8	(1,720.7)	509.3	38.8	548.1

Other reserves consist of the merger reserve, the capital redemption reserve and own shares held. The capital redemption reserve was created as a consequence of the share buy back programme during the year ended 30 September 2009.

The merger reserve arose on the reverse acquisition of Thomas Cook Group plc and MyTravel Group plc by Thomas Cook AG. In the case of Thomas Cook Group plc, the merger reserve represents the difference between the existing share capital and share premium of Thomas Cook AG and the share capital of Thomas Cook Group plc issued in exchange, and in the case of MyTravel Group plc, the merger reserve represents the difference between the fair value and the nominal value of the share capital issued by Thomas Cook Group plc.

Details of changes in hedging and translation reserves are set out in note 30.

# Notes to the financial statements

## 1 General information

*Thomas Cook Group plc* is a limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006 and listed on the London Stock Exchange. The address of the registered office is 3rd Floor, South Building, 200 Aldersgate, London EC1A 4HD. The principal activities of the Group are discussed in the Directors' Report – Business Review on pages 17 to 19.

These consolidated financial statements were approved for issue by the Board of Directors on 27 November 2013.

## 2 Accounting policies

These financial statements have been prepared in accordance with IFRS and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to groups reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on a going concern basis and under the historical cost convention, except for revaluation of certain financial instruments, investment property, share-based payments and defined benefit pension obligations.

The principal accounting policies applied in the preparation of the financial information presented in this document are set out below. These policies have been applied consistently to the periods presented unless otherwise stated.

The principal accounting policies applied in the preparation of the financial information presented in this document are set out below. These policies have been applied consistently to the periods presented unless otherwise stated.

Comparative amounts have been restated to include North America within discontinued operations. In addition, following changes in management responsibilities, the former West Europe and Central Europe segments have been combined into one segment, Continental Europe. The comparative segmental information for the year ended 30 September 2012 has been restated.

The Group's policy on separately disclosed items has been expanded to include the interest income and charges arising on the Group's defined benefit pension schemes as well as the interest charges arising on the unwind of discount on exceptional provisions and deferred consideration.

### Basis of preparation

#### 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. 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 the future transactions and arrangements.

IAS 1 Amendment	"Presentation of Items of Other Comprehensive Income" is effective for annual reporting periods commencing on or after 1 July 2012. The amendment requires disclosure of items that may be reclassified to profit or loss and items that will not be reclassified to profit or loss.
-----------------	--

## Transformation the first 365 days

### Notes to the financial statements continued

#### 2 Accounting policies continued

##### New or amended standards and interpretations in issue but not yet effective and not EU endorsed

The following new standards, amendments to standards and interpretations that are expected to impact the Group, which have not been applied in these financial statements, with the exception of IAS 19 R 'Employee Benefits' (EU endorsed) were in issue, but are not yet effective

IFRS 9	"Financial Instruments" is effective for annual reporting periods commencing on or after 1 January 2015. The standard will eventually replace IAS 39 but currently only details the requirements for recognition and measurement of financial assets.
IFRS 10	"Consolidated financial statements" is effective for annual reporting periods beginning on or after 1 January 2013. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within consolidated financial statements.
IFRS 11	"Joint arrangements" is effective for annual periods beginning on or after 1 January 2013. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
IFRS 12	"Disclosure of interests in other entities" is effective for annual periods beginning on or after 1 January 2013. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
IFRS 13	"Fair value measurement" is effective for annual periods beginning on or after 1 January 2013. This standard applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement.
IAS 27 (revised)	"Separate financial statements" is effective for annual periods beginning on or after 1 January 2013. This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
IAS 28 (revised)	"Investments in associates and joint ventures" is effective for annual periods beginning on or after 1 January 2013. This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.
IFRS 7 (amendment)	"Financial instruments: disclosures" is effective for annual periods beginning on or after 1 January 2013, and amends the disclosures required where certain items have been offset.
IAS 32	"Offsetting financial assets and liabilities" is effective for annual periods beginning on or after 1 January 2014, and provides clarification on the application of offsetting rules.

The Group continues to assess the impact of adopting the above new or amended standards and interpretations in future accounting periods.

IAS 19 (revised 2011) "Employee benefits" is effective for annual periods beginning on or after 1 January 2013. The most significant change that will impact the Group is that both the expected returns on pension plan assets (currently based on expected returns) and the finance charge (currently based on the unwinding of the discount rate on scheme liabilities) will be replaced with a single net interest expense or income, calculated by applying the discount rate used in determining the present value of scheme liabilities to the net defined benefit asset or liability.

Had the Standard been applied in the current financial year, the Group's profit before tax would have been reduced by approximately £5m.

##### Basis of consolidation

The Group's financial statements consolidate those of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of, are consolidated for the periods from, or to, the date on which control passed. Subsidiaries are entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Acquisitions are accounted for under the purchase method. Where a transaction is a business combination amongst entities under common control, the requirements of IFRS 3(R) are applied. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given, equity instruments issued, contingent consideration arrangements entered into, and liabilities incurred or assumed at the date of exchange. Directly attributable transaction costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. When the ownership of an acquired company is less than 100%, the non-controlling interest is measured as the proportion of the recognised net assets attributable to the non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill.

Where audited financial accounts are not coterminous with those of the Group, the financial information is derived from the last audited accounts available and unaudited management accounts for the period up to the Company's balance sheet date.

## 2 Accounting policies *continued*

All intra-group transactions balances income and expenses are eliminated on consolidation

Interpretation guidance included within SIC Interpretation 12 "Consolidation – special purpose entities", indicates that certain special purpose entities (SPEs), which are involved in aircraft leasing arrangements with the Group should be interpreted as being controlled by the Group and therefore subject to consolidation even though the Group has no direct or indirect equity interest in those entities. As a consequence the Group has consolidated three (2012: three) SPEs that own four (2012: four) aircraft operated by the Group on operating leases. In addition during 2009 the operations of the German airline were placed in a holding company in which the Group owns a 50.0023% direct interest. All risks and rewards continue to be held by the Group and in accordance with accounting standards, the entity has been treated as being 100% controlled and fully consolidated by the Group.

### Associates and joint ventures

Entities other than subsidiaries, over which the Group exerts significant influence, but not control or joint control, are associates. Entities which the Group jointly controls with one or more other party under a contractual arrangement are joint ventures.

The Group's share of the results of associates and joint ventures is included in the Group income statement using the equity accounting method. Investments in associates and joint ventures are included in the Group balance sheet at cost, as adjusted for post-acquisition changes in the Group's share of the net assets of the entity and including any goodwill identified on acquisition, net of any accumulated impairment loss. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred.

### Intangible assets – goodwill

Goodwill arising on an acquisition represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset, and is reviewed for impairment at least annually. Any impairment is recognised immediately in the Group's income statement and is not subsequently reversed. 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. The Group allocates goodwill to each segment in which it operates.

On disposal of a subsidiary joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Intangible assets – other

Intangible assets other than goodwill, are carried on the Group's balance sheet at cost less accumulated amortisation. Intangible assets with indefinite useful lives are not amortised. For all other intangible assets, amortisation is charged on a straight-line basis over the asset's useful life, as follows:

Brands	10 years to indefinite life
Customer relationships	1 to 15 years
Computer software	3 to 10 years

Other acquired intangible assets are assessed separately and useful lives established according to the particular circumstances.

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. The nature of the industry we operate in is such that brand obsolescence is not common, if appropriately supported by advertising and marketing spend.

Intangible assets with indefinite useful lives are tested for impairment at least annually at the CGU level by comparing their carrying amount to their recoverable amount. All other intangible assets are assessed at each reporting date for indications of impairment. If such indications exist, the recoverable amount is estimated and compared to the carrying amount. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and the impairment loss is recognised immediately in the income statement.

**Transformation** the first 365 days

## Notes to the financial statements continued

**2 Accounting policies continued****Property, plant and equipment**

Property, plant and equipment is 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.

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:

Freehold buildings	40 to 50 years
Leasehold properties	Shorter of remaining lease period and 40 years
Aircraft	18 years (or remaining lease period if shorter)
Aircraft spares	5 to 15 years (or remaining lease period if shorter)
Other fixed assets	3 to 15 years

Estimated residual values and useful lives are reviewed annually.

Investment property comprises land and buildings which are held for long-term rental yields and capital growth. It is carried at fair value with changes in fair value recognised in the income statement. Investment property is valued annually by external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, an internal valuation is performed and adjustments made to reflect any material changes in fair value.

**Non-current assets held for sale**

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified as held for sale, the assets must be available for immediate sale in their present condition subject only to terms that are usual and customary for the sale of such assets, and their sale must be highly probable. Sale is considered to be highly probable when management is committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan has been initiated at a price that is reasonable in relation to their current fair value, and there is an expectation that the sale will be completed within one year from the date of classification.

Non-current assets classified as held for sale are carried on the Group's balance sheet at the lower of their carrying amount and fair value less costs to sell.

**Aircraft overhaul and maintenance costs**

The cost of major overhauls of owned and finance leased engines, auxiliary power units and airframes is capitalised and then amortised over between two and ten years until the next scheduled major overhaul, except where the maintenance of engines and auxiliary power units is carried out under fixed rate contracts, in which case the cost is spread over the period of the contract. 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 Group under the terms of certain operating leases.

**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.

**Revenue recognition and associated costs**

Revenue represents the aggregate amount of gross revenue receivable from inclusive tours, travel agency commissions receivable and other services supplied to customers in the ordinary course of business. Revenue and direct expenses relating to inclusive tours arranged by the Group's leisure travel providers, including travel agency commission, insurance and other incentives, are taken to the income statement on holiday departure. Revenue relating to travel agency commission on third-party leisure travel products is also recognised on holiday departure. The costs attributable to producing brochures are expensed when the brochures are available to be sent to customers or retail outlets. Other revenue and associated expenses are taken to the income statement as earned or incurred. Revenue and expenses exclude intra-group transactions.



## 2 Accounting policies *continued*

### Income statement presentation and separately disclosed items

Profit or loss from operations includes the results from operating activities of the Group, before its share of the results of associates and joint ventures

The Group separately discloses in the income statement exceptional items, impairment of goodwill and amortisation of business combination intangibles and IAS 39 fair value re-measurement

Exceptional items, namely items that are material either 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 Group's underlying performance

Items which are included within the exceptional category include

- > profits/(losses) on disposal of assets or businesses and costs of acquisitions,
- > costs of integration of significant acquisitions and other major restructuring programmes,
- > significant goodwill or other asset impairments
- > material write-down of assets/reassessment of accruals reflecting a more cautious evaluation in light of current trading and economic conditions (excluding errors or prior year items),
- > other individually material items that are unusual because of their size, nature or incidence

Material business combination intangible assets were acquired as a result of the merger between Thomas Cook AG and MyTravel Group plc and other business combinations made in subsequent years. The amortisation of these intangible assets is significant and the Group's management consider that it should be disclosed separately to enable a full understanding of the Group's results

IAS 39 fair value re-measurement includes movements in forward points related to foreign exchange forward contracts and time value of options in cash flow hedging relationships. Both items are subject to market fluctuations and unwind when the options or forward contracts mature and therefore are not considered to be part of the Group's underlying performance

Interest income and charges arising on the Group's defined benefit pension schemes and interest charges arising on the unwind of discount on exceptional provisions and deferred consideration are not considered to be part of the Group's underlying performance. The Group's management consider that these items should be disclosed separately to enable a full understanding of the Group's results

### Finance income and costs

Finance income comprises interest income on funds invested, expected return on pension plan assets and changes in the fair value of held for trading interest-related derivatives, and fair value adjustments to hedged items in a designated fair value hedge

Finance costs comprise interest costs on borrowings and finance leases, unwind of the discount on provisions, interest cost on pension plan liabilities, changes in the fair value of held for trading interest-related derivatives, movement in forward points on outstanding foreign exchange forward contracts in cash flow hedging relationships and changes in fair value of derivatives designated in a fair value hedge relationship

The movement in forward points on outstanding foreign exchange forward contracts in cash flow hedging relationships is included as a separately disclosed item in the income statement under the description "IAS 39 fair value re-measurement"

The changes in fair value on derivatives designated in a fair value hedge relationship and the fair value adjustment on hedged items in a fair value hedge relationship are separately disclosed in Note 8 under the description "IAS 39 fair value re-measurement"

### 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 recognised directly in other comprehensive income or equity respectively

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. The deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction does not affect either accounting or taxable profit or loss. 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. Deferred tax liabilities are recognised for the temporary differences of overseas subsidiaries, joint ventures and associates unless the Group is able to control the timing of the distribution of those earnings and it is probable that they will not be distributed in the foreseeable future

## Transformation the first 365 days

### Notes to the financial statements continued

## 2 Accounting policies continued

### Pensions

Pension costs charged against profits in respect of the Group's defined contribution schemes represent the amount of the contributions payable to the schemes in respect of the accounting period

The Group also 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 Group'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 current service cost, representing benefits accruing over the year, is included in the income statement as a personnel expense. The unwinding of the discount rate on the scheme liabilities and the expected return on scheme assets are presented as finance costs and finance income respectively. Past service costs are recognised immediately in the income statement in personnel expenses.

### Foreign currency

Average exchange rates are used to translate the results of all subsidiaries, associates and joint ventures that have a functional currency other than Sterling. The balance sheets of such entities are translated at period end exchange rates. The resulting exchange differences are recorded through a separate component of equity.

Transactions in currencies other than the functional currency of an entity are translated at the exchange rate at the date of the transaction.

Foreign currency monetary assets and liabilities held at the period end are translated at period end exchange rates. The resulting exchange gain or loss is recorded in the income statement.

When a foreign entity is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

### Leases

Leases under which substantially all of the risk and rewards of ownership are transferred to the Group are finance leases. All other leases are operating leases.

Assets held under finance leases are recognised at the lower of the fair value of the asset and the present value of the minimum lease payments within property, plant and equipment on the balance sheet and depreciated over the shorter of the lease term or their expected useful lives. The interest element of finance lease payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Income arising from operating leases where the Group acts as lessor is recognised on a straight line basis over the lease term and included in operating income due to its operating nature.

### Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate, foreign exchange and fuel price risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so the nature of the item being hedged.

The gain or loss on re-measurement to fair value, on derivatives not designated as a hedging instrument is recognised immediately in the income statement.

Derivatives are presented on the Balance Sheet on a gross basis. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. The classification of derivatives between current and long term assets and liabilities is presented in Note 23.

### Hedge Accounting

The gain or loss on re-measurement to fair value on derivative financial instruments that are designated and effective as cash flow hedges of future cash flows is recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement within net operating expenses. Forward points on foreign exchange forward contracts and time value of options are not designated as part of the hedging relationship and therefore, are recorded in the income statement within finance costs and costs of providing tourism respectively.

## 2 Accounting policies *continued*

For cash flow hedges, changes in fair value deferred through the hedge reserve are recognised in the income statement in the same period, or periods in which the hedged highly probable forecast transactions are recognised in the income statement

For fair value hedges, changes in the fair value of derivative financial instruments that are designated as fair value hedges are recognised in the income statement as part of finance income or cost line where they offset the changes in fair value on the hedged item. Where the hedged item designated in a fair value hedge relationship is a financial liability held at amortised cost, the change in fair value in respect to the hedged risk is recorded as an IAS 39 fair value adjustment within finance income or cost

Cash flow hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gains or losses on the hedging instrument recognised in other comprehensive income are retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement for the period.

Fair value hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time the changes in fair value on the hedging instrument will continue to be recognised immediately into the income statement, while the hedged item will no longer be adjusted for fair value changes.

Note 23 includes further information on the financial instruments designated as hedging instruments.

### Non-derivative financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group transfers the financial asset or when the contractual rights expire. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. The measurement of particular financial assets and liabilities is set out below.

### Trade and other receivables

Trade and other receivables are recognised at their fair value and subsequently recorded at amortised cost using the effective interest method as reduced by allowances for estimated irrecoverable amounts. An allowance for irrecoverable amounts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows.

### Available-for-sale financial assets

Available-for-sale financial assets are recognised and subsequently recorded at their fair value. Gains or losses (except for impairment losses and foreign exchange gains and losses) are recognised directly in equity until the financial asset is derecognised. At this point, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Any impairment losses, foreign exchange gains or losses or dividends receivable are recognised in the income statement.

### Held for trading investments

Short term investments and derivatives that are not designated in a hedge relationship such as natural hedges of a balance sheet exposures, are classified as held for trading and are recognised and subsequently recorded at their fair value. Gains or losses are recognised in the income statement.

### Other non-current asset investments

The fair value of investments in equity instruments that do not have a quoted market price in an active market are measured using an appropriate valuation technique. Where a fair value cannot be reliably measured, the investment is measured at cost. 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.

### Trade and other payables

Trade and other payables are initially recognised at their fair value and subsequently recorded at amortised cost using the effective interest method.

### Borrowings

Interest bearing borrowings are initially recognised at their fair value net of any directly attributable transaction costs. They are subsequently recorded at amortised cost using the effective interest method.

Borrowings that are designated as hedged items in a fair value hedge relationship are adjusted for changes in their fair value in respect of the hedged risk. The adjustment will be amortised to the income statement at the time when the hedged item ceases to be adjusted for changes in its fair value attributable to the hedged risk.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

## Transformation the first 365 days

### Notes to the financial statements continued

#### 2 Accounting policies *continued*

Provisions are recognised at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is discounted to its present value.

##### **Termination benefits**

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

##### **Share-based payments**

The Group issues equity-settled share options to certain employees as part of their total remuneration. The fair values of the share options are calculated at the date of grant using an appropriate 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, with a corresponding increase in equity.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

##### **Insurance contracts and reinsurance contracts**

Premiums written relate to business inception during the year, together with any differences between the booked premiums for prior years and those previously accrued, less cancellations. Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. Premiums are shown after the deduction of commission and premium taxes where relevant.

Claims and loss adjustment expenses are charged to the income statement as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analysis for the claims incurred but not reported.

Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group, and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. The benefits to which the Group is entitled under its reinsurance contracts held are recognised as receivables from reinsurers. The Group assesses its reinsurance assets for impairment on an annual basis.

Receivables and payables are recognised when due. These include amounts due to and from insurance policyholders.

##### **Critical judgements in applying the Group's accounting policies**

In the process of applying the Group'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 for revenue, expenses, assets and liabilities and accompanying disclosures. Actual results may differ from estimates.

##### a) Judgements

###### ***Residual values of tangible fixed assets***

Judgements have been made in respect of the residual values and useful economic lives of aircraft included in property, plant and equipment (see note 14). Those judgements determine the amount of depreciation charged in the income statement.

###### ***Recoverable amounts of goodwill and intangible assets with an indefinite life***

Judgements have been made in respect of the amounts of future operating cash flows to be generated by certain of the Group's businesses in order to assess whether there has been any impairment of the amounts included in the balance sheet for goodwill or intangible assets with an indefinite life in relation to those businesses.

##### ***Special purpose entities***

The nature of the relationship with certain special purpose entities involved in leasing aircraft to the Group shows that they should be interpreted as controlled by the Group, and therefore consolidated, even though the Group has no direct or indirect equity interest in those entities.

##### b) Estimates

##### **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.

## 2 Accounting policies continued

### *Impairment of goodwill and intangible assets with an indefinite life*

Determining whether goodwill or intangible assets with an indefinite life are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate present value.

### *Recoverable amounts of deposits and prepayments*

Estimates have been made in respect of the volumes of future trading with hoteliers and the credit-worthiness of those hoteliers in order to assess the recoverable amounts of deposits and prepayments made to those hoteliers.

### *Aircraft maintenance provisions*

Provisions for the cost of maintaining leased aircraft and spares are based on forecast aircraft utilisation, estimates of future maintenance costs and planned rollover and renewal of the aircraft fleet.

### *Tax*

The Group operates in many tax regimes and the tax implications of its operations are complex. It can take several years for tax liabilities to be agreed with the relevant authorities. Tax assets and liabilities represent management's estimates of tax that will be payable or recoverable in the future and may be dependent on estimates of future profitability.

In addition, estimates have been made in respect of the probable future utilisation of tax losses and deferred tax assets have been recognised as a result. The recoverability of these assets is dependent on the agreement of the losses with the relevant authorities and the estimates of future profitability.

### *Share-based payments*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 34.

### *Retirement benefits*

The consolidated 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 Group 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 35.

## 3 Segmental information

For management purposes, the Group is organised into four geographic based operating divisions: UK, Continental Europe, Northern Europe and Airlines Germany. These divisions are the basis on which the Group reports its primary segment information. Certain residual businesses and corporate functions are not allocated to these divisions and are shown separately as Corporate.

On 1 May 2013, the Group finalised the sale of its businesses in North America and consequently the results of the North America segment are reported as discontinued operations. In addition, following changes in management structure, the Belgian, French and the Netherlands businesses have been transferred to from the former West segment to the Central Europe segment which has been renamed Continental Europe. The prior year segmental analysis has been restated to reflect the current segmental reporting of continuing operations. These reportable segments are consistent with how information is presented to the Group Chief Executive (chief operating decision maker) for the purpose of resource allocation and assessment of performance.

The primary business of all of these operating divisions is the provision of leisure travel services and, accordingly, no separate secondary segmental information is provided.

**Transformation** the first 365 days

## Notes to the financial statements continued

**3 Segmental information** *continued*

Segmental information for these activities is presented below

Year ended 30 September 2013

	UK £m	Continental Europe £m	Northern Europe £m	Airlines Germany £m	Corporate £m	Total £m
<b>Continuing operations</b>						
<b>Revenue</b>						
Segment sales	2,977.4	4,195.0	1,239.3	1,311.9	–	9,723.6
Inter segment sales	(46.6)	(28.7)	(6.9)	(326.9)	–	(409.1)
<b>Total revenue</b>	<b>2,930.8</b>	<b>4,166.3</b>	<b>1,232.4</b>	<b>985.0</b>	<b>–</b>	<b>9,314.5</b>
<b>Revenue by product</b>						
Tour operations						8,039.8
Airlines						1,683.8
Other						751.6
Inter segment sales						(1,160.7)
<b>Total revenue</b>						<b>9,314.5</b>
<b>Result</b>						
Underlying profit/(loss) from operations	66.3	77.5	109.5	48.2	(38.4)	263.1
Exceptional operating items	(126.3)	(28.7)	0.8	(6.5)	(58.4)	(219.1)
Impairment of goodwill and amortisation of business combination intangibles	(27.2)	(3.7)	(0.1)	–	–	(31.0)
<b>Segment result</b>	<b>(87.2)</b>	<b>45.1</b>	<b>110.2</b>	<b>41.7</b>	<b>(96.8)</b>	<b>13.0</b>
Share of results of associates and joint venture						0.7
Loss on disposal of joint venture						(0.4)
Net investment income						0.4
Finance income						47.6
Finance costs						(219.4)
<b>Loss before tax</b>						<b>(158.1)</b>
Tax						(49.5)
<b>Loss for the year from continuing operations</b>						<b>(207.6)</b>
<b>Discontinued operations</b>						
Profit for the year from discontinued operations (note 28)						0.3
<b>Total loss for the year</b>						<b>(207.3)</b>
<b>Other information</b>						
Capital additions	52.5	22.6	17.3	66.5	18.4	177.3
Depreciation	40.3	8.2	19.0	72.4	0.7	140.6
Amortisation of intangible assets	11.5	14.0	1.3	0.3	4.0	31.1
Amortisation of business combination intangibles	10.0	3.7	0.1	–	–	13.8
Impairment of goodwill	17.2	–	–	–	–	17.2
Impairment of other intangible assets	–	6.6	–	–	–	6.6
Impairment of property, plant and equipment	14.4	–	–	–	–	14.4

3 Segmental information *continued*

	UK £m	Continental Europe £m	Northern Europe £m	Airlines Germany £m	Corporate £m	Total £m
<b>Balance sheet</b>						
<b>Assets</b>						
Segment assets	2,842 0	3,609 6	1,687 0	1,139 2	8,413 8	17,691 6
Inter-segment eliminations					(11,594 7)	
					6,096 9	
Investments in associates and joint ventures					14 4	
Tax and deferred tax assets					173 5	
<b>Total assets</b>					6,284 8	
<b>Liabilities</b>						
Segment liabilities	(2,730 7)	(2,207 6)	(986 6)	(693 4)	(8,739 2)	(15,357 5)
Inter-segment eliminations					11,237 6	
					(4,119 9)	
Tax and deferred tax liabilities					(102 0)	
Borrowings and obligations under finance leases					(1,514 8)	
<b>Total liabilities</b>					(5,736 7)	

Inter-segment sales are charged at prevailing market prices. Segment assets consist primarily of goodwill, other intangible assets, property, plant and equipment, trade and other receivables and cash and cash equivalents.

Segment liabilities comprise trade and other payables, revenue received in advance and provisions.

Capital additions comprise additions to other intangible assets (note 13) and property, plant and equipment (note 14).

The entity is domiciled in the UK. Revenue from external customers in the UK was £2,879.0m (2012: £2,955.4m) which is derived from the 'UK' segmental revenue shown above but excluding external revenue in India, Egypt, Ireland and Spain-domiciled companies, which would otherwise be included in the UK segment. Revenue from external customers in Germany was £3,395.2m (2012: £2,884.7m).

The total non-current assets, other than financial instruments and deferred tax (there are no employment benefits assets or rights arising under insurance contracts), located in the UK was £2,073.9m (2012: £2,066.3m).

1  
Strategic report2  
Directors' report3  
Financial statementsLet's  
go!

**Transformation** the first 365 days

## Notes to the financial statements continued

**3 Segmental information** *continued*

Year ended 30 September 2012 (restated)

	UK £m	Continental Europe £m	Northern Europe £m	Airlines Germany £m	Corporate £m	Total £m
<b>Continuing operations</b>						
<b>Revenue</b>						
Segment sales	3,152.5	4,084.7	1,173.6	1,164.6	–	9,575.4
Inter-segment sales	(43.1)	(30.8)	(6.5)	(300.0)	–	(380.4)
<b>Total revenue</b>	<b>3,109.4</b>	<b>4,053.9</b>	<b>1,167.1</b>	<b>864.6</b>	<b>–</b>	<b>9,195.0</b>
<b>Revenue by product</b>						
Tour operations						7,924.7
Airlines						1,650.7
Other						789.2
Inter-segment sales						(1,169.6)
<b>Total revenue</b>						<b>9,195.0</b>
<b>Result</b>						
Underlying profit/(loss) from operations	12.7	52.1	100.9	35.7	(24.4)	177.0
Exceptional operating items	(86.8)	(10.7)	(2.7)	4.1	(32.4)	(128.5)
Impairment of goodwill and amortisation of business combination intangibles	(108.3)	(97.1)	(13.2)	–	–	(218.6)
<b>Segment result</b>	<b>(182.4)</b>	<b>(55.7)</b>	<b>85.0</b>	<b>39.8</b>	<b>(56.8)</b>	<b>(170.1)</b>
Share of results of associates and joint venture						2.1
Loss on disposal of associates						(0.9)
Net investment income						0.4
Finance income						48.1
Finance costs						(216.4)
<b>Loss before tax</b>						<b>(336.8)</b>
Tax						(104.1)
<b>Loss for the year from continuing operations</b>						<b>(440.9)</b>
<b>Discontinued operations</b>						
Loss for the year from discontinued operations (note 28)						(149.2)
<b>Total loss for the year</b>						<b>(590.1)</b>
<b>Other information</b>						
Capital additions	61.3	18.3	17.3	239.3	6.4	342.6
Depreciation	40.9	6.0	15.6	61.6	0.7	124.8
Amortisation of intangible assets	23.2	14.2	1.5	0.3	3.9	43.1
Amortisation of business combination intangibles	12.3	2.7	13.2	–	–	28.2
Impairment of goodwill	96.0	94.4	–	–	–	190.4
Impairment of other intangible assets	–	16.2	–	–	5.1	21.3



3 Segmental information *continued*

Balance sheet	UK £m	Continental Europe £m	Northern Europe £m	Airlines Germany £m	Corporate £m	Total £m
<b>Assets</b>						
Segment assets	2,996.2	3,467.8	1,913.9	1,044.5	6,756.4	16,178.8
Inter-segment eliminations						(10,546.6)
						5,632.2
Investments in associates and joint ventures						14.2
Tax and deferred tax assets						260.4
<b>Total assets</b>						5,906.8
<b>Liabilities</b>						
Segment liabilities	(2,703.3)	(2,247.1)	(986.4)	(588.6)	(7,695.9)	(14,221.3)
Inter-segment eliminations						10,202.1
						(4,019.2)
Tax and deferred tax liabilities						(181.1)
Borrowings and obligations under finance leases						(1,248.6)
<b>Total liabilities</b>						(5,448.9)

## 4 Cost of providing tourism services

	2013 £m	Restated 2012 £m
Tour accommodation	2,895.9	2,869.5
Transportation costs	1,390.5	1,385.9
Commissions and sales incentives	400.8	387.6
Aircraft fuel	902.8	849.0
Aircraft passenger taxes	459.3	446.3
Other airline related costs	916.2	955.6
Other cost of sales	290.2	275.3
	7,255.7	7,169.2

## 5 Personnel expenses

	2013 £m	Restated 2012 £m
Wages and salaries	899.0	930.7
Social security costs	120.5	134.4
Share based payments – equity settled (see note 34)	7.9	2.0
Defined benefit pension costs (see note 35)	11.8	8.5
Defined contribution pension costs (see note 35)	36.7	31.5
	1,075.9	1,107.1

The average number of employees of the Group during the year was

	2013 Number	Restated 2012 Number
UK	12,941	18,066
Continental Europe	7,253	8,187
Northern Europe	3,090	2,983
Airlines Germany	2,917	2,759
Corporate	247	255
	26,448	32,250

Disclosures of Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and those specified for audit by the Financial Services Authority are on pages 78 to 82 and 85 to 87 within the Remuneration report and form part of these audited financial statements.

Disclosures in respect of remuneration of key management personnel are included in note 36.

*Let's  
go!*

1  
Strategic report

2  
Directors' report

3  
Financial statements

**Transformation** the first 365 days

## Notes to the financial statements continued

**6 Net operating expenses**

	2013 £m	Restated 2012 £m
Advertising expenses	148 0	173 7
Rents and expenses for building maintenance	134 1	154 2
Information technology and telecommunication costs	138 1	120 8
Travel expenses and ancillary personnel expenses	82 2	91 4
Legal and consultancy fees	106 3	76 4
Impairment of current and non-current assets excluding goodwill	63 9	43 9
Insurance	10 8	12 9
Training expenses	9 4	11 4
Other taxes	1 5	3 8
Other operating expenses	26 4	38 5
	<b>720 7</b>	<b>727 0</b>

**7 Separately disclosed items**

	2013 £m	Restated 2012 £m
<b>Affecting profit from operations</b>		
Reorganisation and restructuring costs	(127 3)	(55 4)
Costs associated with refinancing	(17 7)	(30 1)
Impairment of goodwill and asset valuation reviews	(18 2)	(205 7)
Onerous contracts and legal disputes	(58 5)	(9 9)
Amortisation of business combination intangibles	(13 8)	(28 2)
Provision for tax dispute resolution	(14 2)	(12 2)
Other (including time value of options)	(0 4)	(5 6)
	<b>(250 1)</b>	<b>(347 1)</b>
<b>Affecting income from associates and JV</b>		
Loss on disposal of associates	(0 4)	(0 9)
	<b>(0 4)</b>	<b>(0 9)</b>
<b>Affecting net finance costs</b>		
Write off of unamortised bank facility set-up and related costs	(6 8)	(23 1)
Interest cost on pension plan liabilities	(50 2)	(54 6)
Other separately disclosed finance charges	(2 4)	(0 9)
Unwind of discount on provisions and other non current liabilities	(9 2)	(9 8)
IAS 39 fair value measurement – forward points on foreign exchange cash flow hedging contracts	1 6	1 9
Expected return on pension plan assets	41 2	41 4
	<b>(25 8)</b>	<b>(45 1)</b>
<b>Total separately disclosed items</b>	<b>(276 3)</b>	<b>(393 1)</b>

Restructuring costs include £44m in relation to the UK turnaround plan, £29m in relation to transformation and restructuring in Continental Europe and £43m in relation to Group wide transformation projects. Costs associated with refinancing represent those costs that could not be attributed to specific debt or equity elements of the May 2013 refinancing and have therefore not been capitalised or netted against share premium. Of these costs £47m are directly attributable to 'cost out and profit improvement' initiatives.

Impairment of goodwill and asset valuation reviews principally relate to the UK segment. The Egyptian and Lebanese businesses have been written down to their recoverable amount and classified as held for sale. A review of the carrying value in the Group's investment in the UK National Air Traffic Services (NATS) resulted in a write up to the disposal value giving rise to a gain of £29m. A pre-disposal review of Neilson and its subsidiaries resulted in an impairment of £13m. A revaluation of specific investments held by the UK pension fund, with a value guaranteed by the Group, resulted in an impairment of £8m.

## 7 Separately disclosed items *continued*

In the year the Group assessed its position in respect of certain onerous contracts and made adjustments to assets on the balance sheet and made provision for future losses under these contracts. These contracts included certain UK service outsourcing contracts (£10m), hotel leases (£14m), sports marketing and related travel contracts (£9m) and foreign exchange and other commercial contracts (£26m).

Provision for tax dispute resolution relates to a £14m provision in respect of an adverse third party sales tax judgement relating to the TOMS. The case is under appeal however the Group has taken a prudent view of the outcome and has no cash exposure.

The Group has recognised a number of separately disclosed items affecting financing income and cost. During the year the Group has adopted industry practice of separately disclosing financing charges and income relating to defined benefit pension schemes. Following the successful refinancing in May 2013 the unamortised facility fees relating to the previous facility were written off. This resulted in a charge of £6.8m. The unwind of discount on provisions, relating primarily to deferred acquisition consideration, have also been separately disclosed.

## 8 Finance income and costs

	2013 £m	Restated 2012 £m
<b>Underlying finance income</b>		
Income from loans included in financial assets	0.4	0.4
Other interest and similar income	6.0	6.3
	<b>6.4</b>	<b>6.7</b>
<b>Underlying finance costs</b>		
Bank and bond interest	(90.1)	(85.1)
Fee amortisation	(6.5)	(7.9)
Letters of credit	(16.0)	(15.3)
Other interest payable	(14.4)	(12.0)
	<b>(127.0)</b>	<b>(120.3)</b>
<b>Underlying aircraft related finance costs</b>		
Interest payable	(7.1)	(4.2)
Finance costs in respect of finance leases	(18.3)	(5.4)
	<b>(25.4)</b>	<b>(9.6)</b>
<b>Net underlying interest</b>	<b>(146.0)</b>	<b>(123.2)</b>
<b>Separately disclosed finance income</b>		
Interest income on pension plan assets	41.2	41.4
	<b>41.2</b>	<b>41.4</b>
<b>Separately disclosed finance costs</b>		
Write off of unamortised bank facility set-up and related costs	(6.8)	(23.1)
Interest cost on pension plan liabilities (note 35)	(50.2)	(54.6)
Discounting of provisions and other non-current liabilities	(9.2)	(9.8)
Other exceptional finance charges	(2.4)	(0.9)
	<b>(68.6)</b>	<b>(88.4)</b>
<b>IAS 39 fair value re-measurement</b>		
Forward points on foreign exchange cash flow hedging contracts	1.6	1.9
<b>Total net interest</b>	<b>(171.8)</b>	<b>(168.3)</b>

The fair value adjustment on hedged items designated in a fair value hedge is £51k (2012 nil)

1  
Strategic report2  
Directors' report3  
Financial statements


**Transformation** the first 365 days

## Notes to the financial statements continued

**9 Loss before tax**

Loss before tax for the year has been arrived at after charging/(crediting)

	2013 £m	Restated 2012 £m
Separately disclosed items affecting profit from operations (see note 7)	<b>250 1</b>	347 1
Including		
– Impairment of goodwill	<b>17 2</b>	190 4
– Impairment of other non current intangible assets	<b>7 4</b>	22 6
– Amortisation of business combination intangibles	<b>14 7</b>	28 2
Depreciation of property, plant and equipment		
– owned assets	<b>92 3</b>	98 5
– held under finance leases	<b>49 2</b>	26 3
Amortisation of intangible assets	<b>32 7</b>	43 1
Cost of inventories recognised as expense	<b>43 3</b>	40 2
Loss on disposal of associates and joint venture	<b>0 4</b>	0 9
Operating lease rentals payable		
– hire of aircraft and aircraft spares	<b>101 3</b>	103 1
– other	<b>115 1</b>	115 9
Net foreign exchange gains	<b>(12 1)</b>	(19 9)
Personnel expenses (note 5)	<b>1,075 9</b>	1,107 1
Auditors' remuneration	<b>6 6</b>	5 8

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below

	2013 £m	2012 £m
Audit of the Company's annual accounts	<b>0 5</b>	0 4
Audit of subsidiaries	<b>2 4</b>	2 3
<b>Total audit fees</b>	<b>2 9</b>	2 7
Audit related assurance services	<b>0 3</b>	0 3
Other assurance services	<b>1 0</b>	1 1
Total assurance services	<b>1 3</b>	1 4
Tax compliance services	<b>0 1</b>	0 1
Services relating to taxation	<b>0 1</b>	0 1
Other non-audit services not covered above	<b>2 3</b>	1 8
Total other non-audit services	<b>2 3</b>	1 8
<b>Total non-audit services</b>	<b>3 7</b>	3 3
<b>Total fees</b>	<b>6 6</b>	6 0

The prior year numbers have not been restated to exclude discontinued operations in the detailed auditors remuneration analysis above

In addition to the above, £72k (2012 £69k) has been incurred in respect of the audits of the Group pension schemes

Fees paid to the Company's auditors and their associates for services other than the statutory audit of the Company are not disclosed in subsidiaries' accounts since the consolidated accounts of the subsidiaries' parent, Thomas Cook Group plc, are required to disclose non-audit fees on a consolidated basis

A description of the work of the Audit Committee is set out in the Corporate Governance report on pages 60 to 61 and includes an explanation of how auditor objectivity and independence is safeguarded when non audit services are provided by the auditors

## 10 Tax

		2013 £m	Restated 2012 £m
<b>Analysis of tax charge</b>			
<b>Current tax</b>			
UK	corporation tax charge for the year	–	–
	adjustments in respect of prior periods	4 5	(3 8)
		4 5	(3 8)
Overseas	corporation tax charge for the year	41 8	32 8
	adjustments in respect of prior periods	(2 5)	(3 1)
		39 3	29 7
<b>Total current tax</b>		<b>43 8</b>	<b>25 9</b>
<b>Deferred tax</b>			
	tax charge for the year	(10 5)	52 2
	adjustments in respect of prior periods	16 2	26 0
<b>Total deferred tax</b>		<b>5 7</b>	<b>78 2</b>
<b>Total tax charge</b>		<b>49 5</b>	<b>104 1</b>

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows

	2013 £m	Restated 2012 £m
<b>Tax reconciliation</b>		
Loss before tax	(158 1)	(336 8)
Expected tax charge at the UK corporation tax rate of 23.5% (2012: 25.0%)	(37 2)	(84 2)
Income not liable for tax	(14 1)	(17 2)
Expenses not deductible for tax purposes	14 8	10 3
Impairment for which no tax relief is due	6 5	48 2
Losses and other timing differences for which tax relief is not available	132 5	76 8
Utilisation of tax losses not previously recognised	(10 7)	(6 1)
Recognition of losses not previously recognised	(75 1)	(12 5)
Derecognition of deferred tax previously recognised	9 0	67 1
Difference in rates of tax suffered on overseas earnings	(2 5)	(6 1)
Impact of changes in tax rates	7 3	8 7
Other	0 8	–
Income tax charge in respect of prior periods	18 2	19 1
<b>Tax charge</b>	<b>49 5</b>	<b>104 1</b>

In addition to the amount charged to the income statement, deferred tax relating to actuarial losses on pension schemes and the fair value of derivative financial instruments of £0.7m has been credited directly to equity (2012: credit of £32.1m). UK corporation tax is calculated at 23.5% (2012: 25.0%) of the estimated assessable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Surplus losses not recognised in deferred tax of £1,940.5m (2012: £1,933.9m) are available predominantly in the UK, France and Germany for offset against future profits.

**Transformation** the first 365 days

## Notes to the financial statements continued

**11 Dividends**

No dividends were declared during the year ended 30 September 2013 (2012: nil)

**12 Earnings per share**

The calculations for earnings per share, based on the weighted average number of shares, are shown in the table below. The weighted average number of shares shown excludes 7.5m shares held by the employee share ownership trusts (2012: 3.7m)

<b>Basic and diluted loss per share</b>	<b>2013 £m</b>	<b>2012 £m</b>
Continuing operations	<b>(199.3)</b>	(436.5)
Discontinued operations	<b>0.3</b>	(149.2)
Net loss attributable to owners of the parent	<b>(199.0)</b>	(585.7)

	<b>millions</b>	<b>millions</b>
Weighted average number of shares for basic and diluted loss per share	<b>1,195.9</b>	871.9

	<b>pence</b>	<b>pence</b>
Basic and diluted loss per share from continuing operations	<b>(16.7)</b>	(50.1)
Basic and diluted loss per share from discontinued operations	<b>–</b>	(17.1)
Total basic and diluted loss per share	<b>(16.7)</b>	(67.2)

<b>Underlying basic and diluted earnings per share</b>	<b>2013 £m</b>	<b>2012 £m</b>
Underlying net profit/(loss) attributable to owners of the parent*	<b>59.8</b>	5.5

	<b>millions</b>	<b>millions</b>
Weighted average number of shares for basic earnings per share	<b>1,195.9</b>	871.9
Effect of dilutive potential ordinary shares – share options**	<b>21.7</b>	–
Weighted average number of shares for diluted earnings per share	<b>1,217.6</b>	871.9

	<b>pence</b>	<b>pence</b>
Underlying basic earnings per share	<b>5.0</b>	0.6
Underlying diluted earnings per share	<b>4.9</b>	0.6

\* Underlying net profit attributable to owners of the parent is derived from the continuing pre-exceptional profit before tax for the year ended 30 September 2013 of £118.2m (2012: £56.3m) and deducting a notional tax charge of £66.7m (2012: £55.2m)

\*\* Awards of shares under the Thomas Cook Performance Share Plan, Buy As You Earn Scheme, Restricted Share Plan and Co-Investment Plan will be satisfied by shares held in trust and therefore are potentially dilutive. The remainder of the share schemes will be satisfied by the purchase of existing shares in the market and will therefore not result in any dilution of earnings per share.

## 13 Intangible assets

	2013 £m	2012 £m
Goodwill	2,690.9	2,660.2
Business combination intangible assets	325.9	369.2
Other	137.7	129.5
	<b>3,154.5</b>	<b>3,158.9</b>

**Goodwill**

<b>Cost</b>	£m
At 1 October 2011	3,389.0
Additions	83.0
Reassessment of goodwill	7.7
Disposals	(142.6)
Exchange differences	(81.8)
At 30 September 2012	3,255.3
Disposals	(267.0)
Transfer to non-current assets held for sale (note 28)	(16.2)
Exchange differences	63.2
<b>At 30 September 2013</b>	<b>3,035.3</b>
<b>Accumulated impairment losses</b>	
At 1 October 2011	407.4
Impairment charge for the year	299.6
Disposals	(99.5)
Exchange differences	(12.4)
At 30 September 2012	595.1
Impairment charge for the year	17.2
Disposals	(267.0)
Transfer to non-current assets held for sale (note 28)	(16.2)
Exchange differences	15.3
<b>At 30 September 2013</b>	<b>344.4</b>
<b>Carrying amount</b>	
<b>At 30 September 2013</b>	<b>2,690.9</b>
At 30 September 2012	2,660.2

The carrying value of goodwill is analysed by business segment as follows

	2013 £m	2012 £m
UK	1,755.8	1,746.0
Continental Europe	168.8	162.4
Northern Europe	745.3	731.8
Airlines Germany	21.0	20.0
	<b>2,690.9</b>	<b>2,660.2</b>

In accordance with accounting standards, the Group tests the carrying value of goodwill for impairment annually and whenever events or circumstances change

1  
Strategic report2  
Directors' report3  
Financial statementsLet's  
go!

**Transformation** the first 365 days

## Notes to the financial statements continued

**13 Intangible assets** *continued*

Impairment testing is performed by comparing the carrying value of each cash-generating unit (CGU) to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at pre-tax rates appropriate for each CGU. The Group's CGUs are determined by geographical market and consist of UK, Continental Europe, Northern Europe and Airlines Germany. See note 3 for details of changes to the Group's CGUs during the year.

The future cash flow projections used to determine the value in use are based on the most recent annual budgets and three year plans for each of the CGU's. The key assumptions used to determine the business' budget and three year plans relate to capacity and the pricing of accommodation and fuel inputs. Capacity is based on management's view of market demand and the constraints to managing capacity such as aircraft lease commitments. The accommodation pricing is primarily driven by the underlying bed rate and the foreign exchange hedges in place. The former is based on the businesses' ongoing dialogue with bed suppliers and local cost inflation. The fuel pricing assumption is primarily driven by the fuel hedges in place and the forward fuel curve at the time that the budget is set. The key assumptions used to determine the Independent business' budget and three-year plans relate to passenger volumes and commission rates and are based on the individual businesses' view of the market conditions.

Cash flow forecasts for years beyond the three-year plan are extrapolated at an estimated average long-term nominal growth rate.

The other key assumptions used in the value in use calculations are as follows:

- > a pre-tax discount rate of between 13.3% – 14.1% reflecting the specific risks of each CGU
- > a long-term nominal terminal growth rate of 2% for all CGUs

The decision to sell the businesses in Egypt and Lebanon led to the reassessment of the carrying value of goodwill in the current year and, as a result, the goodwill relating to these businesses was impaired. The cost and accumulated impairment of the Egyptian and Lebanese businesses has been classified as held for sale as at 30 September 2013.

In 2012 a total of £299.6m was impaired, which consisted of impairments in North America (£109.2m), the former West Europe CGU which is now included within the Continental Europe segment (£94.4m) and India (£96.0m) which was sold in 2012 and was included in the UK segment.

The value in use calculations performed as at 30 September 2013 indicate that the UK CGU is no longer sensitive to reasonably possible changes in the key assumptions.

Sensitivity analysis for the remaining segments has not been disclosed as management believe that any reasonable change in assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.



### 13 Intangible assets *continued*

#### Business combination intangibles

	Brands and customer relationships £m	Order backlog £m	Computer software £m	Other £m	Total £m
<b>Cost</b>					
At 1 October 2011	525.5	41.5	15.6	3.3	585.9
Additions	27.1	1.5	–	–	28.6
Disposals	(26.0)	–	–	(2.9)	(28.9)
Exchange differences	(4.0)	(0.1)	0.1	(0.4)	(4.4)
At 30 September 2012	522.6	42.9	15.7	–	581.2
Disposals	(45.2)	–	–	–	(45.2)
Transfer to non-current assets held for sale (note 28)	(1.8)	–	–	–	(1.8)
Exchange differences	5.3	0.7	–	–	6.0
<b>At 30 September 2013</b>	<b>480.9</b>	<b>43.6</b>	<b>15.7</b>	<b>–</b>	<b>540.2</b>
<b>Accumulated amortisation</b>					
At 1 October 2011	135.3	41.5	15.6	0.2	192.6
Charge for the year	27.3	1.2	–	–	28.5
Impairment	0.6	–	–	–	0.6
Disposals	(9.9)	–	–	(0.2)	(10.1)
Exchange differences	0.4	(0.1)	0.1	–	0.4
At 30 September 2012	153.7	42.6	15.7	–	212.0
Charge for the year	14.4	0.3	–	–	14.7
Impairment	0.8	–	–	–	0.8
Disposals	(12.3)	–	–	–	(12.3)
Transfer to non-current assets held for sale (note 28)	(1.8)	–	–	–	(1.8)
Exchange differences	0.2	0.7	–	–	0.9
<b>At 30 September 2013</b>	<b>155.0</b>	<b>43.6</b>	<b>15.7</b>	<b>–</b>	<b>214.3</b>
<b>Carrying amount</b>					
<b>At 30 September 2013</b>	<b>325.9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>325.9</b>
At 30 September 2012	368.9	0.3	–	–	369.2

The initial valuation of business combination intangibles is based on applicable projected future cash flows discounted at an appropriate discount rate. Customer relationships are being amortised over periods of 1 to 15 years and computer software over a period of 3 to 10 years. Order backlog has been amortised over the period from acquisition to departure.

Indefinite-lived intangible assets principally comprise those trademarks for which there is no foreseeable limit to the period over which they are expected to generate net cash inflows. These are considered to have an indefinite life, given the strength and durability of our brands and the level of marketing support. The nature of the industry we operate in is such that brand obsolescence is not common if appropriately supported by advertising and marketing spend. The Group annually tests the carrying value of indefinite-lived intangibles for impairment on a value in use basis consistent with that disclosed for goodwill earlier in this note.

1  
Strategic report2  
Directors' report3  
Financial statements

**Transformation** the first 365 days

## Notes to the financial statements continued

**13 Intangible assets** *continued*

The carrying value of brands with an indefinite life is analysed by business segment as follows

	2013 £m	2012 £m
UK	<b>70 6</b>	70 6
Continental Europe	<b>48 3</b>	47 9
Northern Europe	<b>137 2</b>	134 7
North America	–	23 9
	<b>256 1</b>	277 1

**Other intangible assets**

	Computer software and concessions		Other	Total £m
	Purchased £m	Internally generated £m	Purchased £m	
<b>Cost</b>				
At 1 October 2011	285 1	206 3	21 4	512 8
Additions	6 3	34 9	0 2	41 4
Reclassification	(16 0)	17 1	–	1 1
Disposals	(115 4)	(24 4)	(0 7)	(140 5)
Exchange differences	(19 8)	(6 2)	(0 4)	(26 4)
At 30 September 2012	140 2	227 7	20 5	388 4
Additions	4 9	48 1	–	53 0
Disposals	(29 4)	(26 9)	(0 1)	(56 4)
Transfer to non-current assets held for sale (note 28)	(0 4)	–	(0 1)	(0 5)
Exchange differences	6 0	4 5	–	10 5
<b>At 30 September 2013</b>	<b>121 3</b>	<b>253 4</b>	<b>20 3</b>	<b>395 0</b>
<b>Accumulated amortisation</b>				
At 1 October 2011	213 0	116 5	8 2	337 7
Charge for the year	11 6	26 0	8 0	45 6
Impairment losses	14 9	7 7	–	22 6
Reclassification	(2 8)	2 8	–	–
Disposals	(113 8)	(12 7)	(0 7)	(127 2)
Exchange differences	(16 8)	(3 0)	–	(19 8)
At 30 September 2012	106 1	137 3	15 5	258 9
Charge for the year	6 1	26 4	0 2	32 7
Impairment losses	5 3	1 3	–	6 6
Disposals	(27 8)	(20 5)	(0 1)	(48 4)
Transfer to non current assets held for sale (note 28)	(0 2)	–	–	(0 2)
Exchange differences	4 8	2 9	–	7 7
<b>At 30 September 2013</b>	<b>94 3</b>	<b>147 4</b>	<b>15 6</b>	<b>257 3</b>
<b>Carrying amount</b>				
<b>At 30 September 2013</b>	<b>27 0</b>	<b>106 0</b>	<b>4 7</b>	<b>137 7</b>
At 30 September 2012	34 1	90 4	5 0	129 5

Concessions include the value of licences granted to the Group, as well as copyrights and trademarks and similar items. Licences are amortised over the period of the licence, up to a maximum of ten years

## 14 Property, plant and equipment

	Aircraft and aircraft spares £m	Investment property £m	Freehold land and buildings £m	Other property plant and equipment		
				Short leaseholds £m	Other fixed assets £m	Other Total £m
<b>Cost</b>						
At 1 October 2011	1,772.2	18.0	177.1	195.4	232.5	605.0
Additions	276.9	–	3.5	8.7	16.4	28.6
Acquisitions	–	–	1.1	7.3	2.3	10.7
Reclassification	–	–	–	–	(1.1)	(1.1)
Disposals	(823.4)	(16.6)	(23.5)	(29.6)	(34.1)	(87.2)
Exchange differences	(117.9)	(1.4)	(13.4)	(6.2)	(14.2)	(33.8)
At 30 September 2012	1,107.8	–	144.8	175.6	201.8	522.2
Additions	95.4	–	1.8	6.2	20.9	28.9
Disposals	(22.2)	–	(0.9)	(38.8)	(32.0)	(71.7)
Transfer to non-current assets held for sale (note 28)	–	–	–	(0.5)	(11.1)	(11.6)
Exchange differences	45.9	–	7.0	2.7	17.6	27.3
<b>At 30 September 2013</b>	<b>1,226.9</b>	<b>–</b>	<b>152.7</b>	<b>145.2</b>	<b>197.2</b>	<b>495.1</b>
<b>Accumulated depreciation and impairment</b>						
At 1 October 2011	1,133.6	–	55.6	128.5	140.6	324.7
Charge for the year	94.9	–	4.6	11.0	15.8	31.4
Provision for impairment	–	–	–	–	0.6	0.6
Disposals	(631.3)	–	(8.9)	(23.0)	(25.0)	(56.9)
Exchange differences	(89.0)	–	(5.0)	(4.4)	(9.4)	(18.8)
At 30 September 2012	508.2	–	46.3	112.1	122.6	281.0
Charge for the year	108.7	–	7.0	10.0	15.8	32.8
Provision for impairment (note 7)	–	–	–	0.1	14.3	14.4
Disposals	(18.3)	–	(0.7)	(20.3)	(25.6)	(46.6)
Transfer to non-current assets held for sale (note 28)	–	–	–	(0.2)	(3.5)	(3.7)
Exchange differences	25.4	–	2.6	1.8	14.8	19.2
<b>At 30 September 2013</b>	<b>624.0</b>	<b>–</b>	<b>55.2</b>	<b>103.5</b>	<b>138.4</b>	<b>297.1</b>
<b>Carrying amount</b>						
<b>At 30 September 2013</b>	<b>602.9</b>	<b>–</b>	<b>97.5</b>	<b>41.7</b>	<b>58.8</b>	<b>198.0</b>
At 30 September 2012	599.6	–	98.5	63.5	79.2	241.2

Freehold land with a cost of £25.1m (2012 £24.3m) has not been depreciated

The net book value of aircraft and aircraft spares includes £284.4m (2012 £311.3m) in respect of assets held under finance leases

The net book value of other property plant and equipment includes £11.5m (2012 £10.9m) in respect of assets held under finance leases

**Capital commitments**

	2013 £m	2012 £m
Capital expenditure contracted but not provided for in the accounts	57.2	8.1

In addition, the Group is contractually committed to the acquisition of six new Airbus A321 aircraft which have a list price of \$96m each, before escalations and discounts

1  
Strategic report2  
Directors report3  
Financial statementsLet's  
go!

**Transformation the first 365 days**

## Notes to the financial statements continued

**15 Non-current asset investments**

	Associates and joint venture £m	Available for sale financial assets £m	Equity investments £m	Loans & receivables £m	Other Investments Total other investments £m
<b>Cost</b>					
At 1 October 2012	37.0	8.3	–	10.2	18.5
Disposals	(0.6)	(5.3)	–	–	(5.3)
Group's share of associates' and joint venture's profit for the year	0.7	–	–	–	–
Interest received	–	–	–	(2.8)	(2.8)
Additional loan investment	0.1	–	–	0.2	0.2
Write up of investment	–	–	29.0	–	29.0
Transfer to non-current assets held for sale (note 28)	–	–	(29.0)	(7.6)	(36.6)
Exchange differences	1.1	0.2	–	–	0.2
<b>At 30 September 2013</b>	<b>38.3</b>	<b>3.2</b>	<b>–</b>	<b>–</b>	<b>3.2</b>
<b>Amounts written off or provided</b>					
At 1 October 2012	22.8	7.1	–	–	7.1
Disposals	–	(5.3)	–	–	(5.3)
Exchange differences	1.1	0.2	–	–	0.2
<b>At 30 September 2013</b>	<b>23.9</b>	<b>2.0</b>	<b>–</b>	<b>–</b>	<b>2.0</b>
<b>Carrying amount</b>					
<b>At 30 September 2013</b>	<b>14.4</b>	<b>1.2</b>	<b>–</b>	<b>–</b>	<b>1.2</b>
At 30 September 2012	14.2	1.2	–	10.2	11.4

**Associates**

Investments in associates at 30 September 2013 included a 40% interest in Activos Turísticos S.A., an incoming agency and hotel company based in Palma de Mallorca, Spain and a 25% interest in Hoteleira Adeje S.L., a hotel company based in Santa Cruz Tenerife.

During the year the Group received a dividend payment of £2.5m which had been recognised in the prior year.

**Joint venture**

During the year the group disposed of its share in Thomas Cook Personal Finance Limited for net proceeds of £0.3m.

Summarised financial information in respect of the associates and joint venture is as follows:

	2013 Joint venture £m	2013 Associates £m	2012 Joint venture £m	2012 Associates £m
Total assets	–	101.9	57.0	97.2
Total liabilities	–	(42.7)	(79.6)	(41.0)
Net assets/(liabilities)	–	59.2	(22.6)	56.2
Group's share of net assets/(liabilities)	–	17.7	(11.3)	16.4
Revenue	3.0	51.6	8.2	51.2
Profit for the year	0.2	1.8	0.4	3.9
Group's share of associates and joint venture's profit for the year	0.1	0.6	0.2	1.9

The financial statements of the associated undertakings are made up at different times to that of the Group. For the purposes of applying the equity method of accounting the most recent financial statements of these undertakings and the management accounts are used to draw up the financial position and performance of each associate.

## 15 Non-current asset investments *continued*

### Other investments

During the year ended 30 September 2013, the Group recognised income from available-for-sale financial assets of £0.4m (2012: £0.4m). There is no active market for the available-for-sale financial assets, consequently they are recorded at cost.

During the year the Group disposed of its remaining 24.9% interest in Aldiana, a specialist hotel operator for nil gain or loss.

Equity investments and loans and receivables are in respect of the Group's investment, as a member of The Airline Group, in the UK National Air Traffic Services (NATS). The investment comprises ordinary shares and related loan notes accruing interest at 8% in the Airline Group.

During the year the Group wrote up the carrying value of its investment to fair value less costs to sell and classified the investment as held for sale. On 19 November 2013 the Group announced it had agreed to sell 91.5% of its shareholding and loan note interests for a cash consideration of £38m.

## 16 Acquisitions and disposals

A list of the principal investments in subsidiaries, including the name, country of incorporation, description and proportion of ownership interest, is given in note 19 to the Company's separate financial statements. All of the subsidiary undertakings have been consolidated in the Group accounts.

### Acquisitions made in previous periods

#### Hotels4U.com

During the year a final deferred consideration of £5.5m was paid to the former owners of Hotels4U.com.

#### ITC Travel Investments SL

A cash payment of £3.1m (\$5.0m) was received during the year in respect of partial settlement of deferred consideration.

### Disposal of businesses

#### Thomas Cook Canada Inc. and Thomas Cook USA Holdings Inc.

On 1 May 2013 the Group sold Thomas Cook Canada Inc. and Thomas Cook USA Holdings Inc. to Red Label Vacations Inc. for a cash consideration of 5.3m Canadian dollars. At the balance sheet date, 3.3m Canadian dollars (£2.2m) had been received from the purchaser. £38m cash was included within the net assets disposed with the business.

The results of these businesses have been included as discontinued operations. Further details can be found in note 28 'Discontinued operations and assets classified as held for sale'.

Financial information related to the disposal is set out below.

	£m
Consideration received, net of costs	3.4
Less carrying amount of net assets disposed of	(41.3)
Less share of translation reserve	39.9
Gain on disposal	2.0

### Disposal of Russian subsidiaries

During the year the Group disposed of a number of small, non-core subsidiaries in Russia. The net cash disposed with these businesses was £2.9m.

#### Thomas Cook Personal Finance Ltd

In March 2013 Thomas Cook Personal Finance Limited, a joint venture arrangement with Barclays Bank, was wound up. The net cash proceeds received for the Group's 50% share were £0.3m. The Group recorded a loss of £0.4m.

### Disposal of businesses in previous periods

During the year the Group received a deferred cash consideration payment of £0.9m in relation to the sale of Oasis Company SAE, a business disposed of in the prior year.

## 17 Inventories

	2013 £m	2012 £m
Goods held for resale	5.1	7.2
Airline spares and other operating inventories	23.1	23.3
	28.2	30.5

**Transformation** the first 365 days

## Notes to the financial statements continued

**18 Trade and other receivables**

	2013 £m	2012 £m
<b>Non-current assets</b>		
Trade receivables	0.4	0.1
Other receivables	23.6	35.5
Deposits and prepayments	114.9	106.6
Loans	2.5	2.9
Securities	1.3	1.7
	<b>142.7</b>	<b>146.8</b>
<b>Current assets</b>		
Trade receivables	270.5	317.3
Other receivables	42.5	62.1
Deposits and prepayments	443.7	494.9
Loans	3.9	2.6
Securities	0.4	0.4
Amounts owed by associates and participations	2.1	7.5
Other taxes	22.3	59.3
	<b>785.4</b>	<b>944.1</b>

The average credit period taken on invoicing of leisure travel services is 12 days (2012: 15 days). No interest is charged on the receivables. The credit risk in respect of direct receivables from customers is limited as payment is required in full before the services are provided. In the case of travel services sold by third-party agents, the credit risk depends on the creditworthiness of those third parties, but this risk is also limited because of the relatively short period of credit.

Deposits and prepayments include amounts paid in advance to suppliers of hotel and other services in order to guarantee the provision of those supplies. The Group's current policy is that deposits and prepayments will normally be made for periods of up to two years in advance. There is a credit risk in respect of the continued operation of those suppliers during those periods. Deposits and prepayments also include £31.6m (2012: £20.8m) of deposits on aircraft lease arrangements which are primarily attributable to the UK airline.

Securities include money market securities amounting to £1.3m (2012: £1.7m) purchased as collateral against liabilities arising from part-time retirement contracts at Thomas Cook AG, which are classified as available-for-sale financial assets.

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.

Allowances for doubtful debts in respect of trade receivable balances are managed in the business units where the debts arise and are based on local management experience. Factors that are considered include the age of the debt, previous experience with the counterparty and local trading conditions. Trade receivables arise from individual customers as well as businesses in the travel sector. The Directors do not consider there to be significant concentration of credit risk relating to trade and other receivables.

**Movement in allowances for doubtful receivables**

	2013 £m	2012 £m
At beginning of year	56.3	61.4
Additional provisions	7.8	9.3
Exchange differences	1.6	(3.9)
Acquisitions	–	7.9
Disposals	(0.9)	–
Transfer to non-current assets held-for-sale	(0.7)	–
Receivables written off	(16.1)	(8.3)
Unused amounts released	(3.6)	(10.1)
<b>At the end of year</b>	<b>44.4</b>	<b>56.3</b>

At the year end, trade and other receivables of £109.9m (2012: £96.9m) were past due but not impaired.

## 18 Trade and other receivables *continued*

The analysis of the age of these financial assets is set out below

### Ageing analysis of overdue trade and other receivables

	2013 £m	2012 £m
Less than one month overdue	56 6	45 7
Between one and three months overdue	29 7	22 2
Between three and twelve months overdue	12 8	16 8
More than twelve months overdue	10 8	12 2
	<b>109 9</b>	<b>96 9</b>

Trade and other receivables are not subject to restrictions on title and no collateral is held as security

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values

## 19 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	410 8	447 3
Term deposits	678 0	13 0
	<b>1,088 8</b>	<b>460 3</b>

Cash and cash equivalents largely comprise bank balances denominated in Sterling, Euro and other currencies for the purpose of settling current liabilities as well as balances arising from agency collection on behalf of the Group's travel agencies

Included within the above balance are the following amounts considered to be restricted

- > £52.7m (2012: £80.5m) held within escrow accounts in UK, Switzerland and the Czech Republic in respect of local regulatory requirements,
- > £14.4m (2012: £15.7m) of cash held by White Horse Insurance Ireland Limited, the Group's captive insurance company, and
- > £8.2m (2012: £7.8m) of cash held in countries where exchange control restrictions are in force (Tunisia, Cyprus and Morocco), net of cash available to repay local debt in those countries

The Directors consider that the carrying amounts of these assets approximate to their fair value

## 20 Trade and other payables

	2013 £m	2012 £m
<b>Current liabilities</b>		
Trade payables	1,296 7	1,221 1
Amounts owed to associates and participations	2 6	3 2
Social security and other taxes	67 6	76 5
Accruals and deferred income	514 5	537 9
Other payables	113 8	169 8
	<b>1,995 2</b>	<b>2,008 5</b>
<b>Non-current liabilities</b>		
Accruals and deferred income	4 0	5 5
Other payables	92 9	89 9
	<b>96 9</b>	<b>95 4</b>

The average credit period taken for trade purchases is 66 days (2012: 63 days)

The Directors consider that the carrying amounts of trade and other payables approximate to their fair value

1  
Strategic report

2  
Directors' report

3  
Financial statements

**Transformation the first 365 days**

## Notes to the financial statements continued

**21 Borrowings**

	2013 £m	2012 £m		
<b>Short-term borrowings</b>				
Unsecured bank loans and other borrowings	134 0	0 6		
Unsecured bank overdrafts	3 2	6 8		
	137 2	7 4		
<b>Current portion of long-term borrowings</b>	39 3	30 4		
	176 5	37 8		
<b>Long-term borrowings</b>				
Bank loans and bonds				
– repayable within one year	39 3	30 4		
– repayable between one and five years	689 8	977 1		
– repayable after five years	424 0	0 5		
	1,153 1	1,008 0		
Less: amount due for settlement within one year shown under current liabilities	(39 3)	(30 4)		
<b>Amount due for settlement after one year</b>	1,113 8	977 6		
<b>Borrowings by class</b>				
	2013	2012		
	Current £m	Non-current £m	Current £m	Non-current £m
Group committed credit facility (including transaction costs)	–	(18 6)	–	280 6
Aircraft-related bank loans (including transaction costs)	38 6	64 5	29 8	70 3
Bank and other borrowings	137 9	15 1	8 0	15 1
Issued bonds (including transaction costs)	–	1,052 8	–	611 6
	176 5	1,113 8	37 8	977 6

On 27 June 2013 the Group completed a £1.6bn recapitalisation of the business which included

- a 2 for 5 rights issue of 409,029,271 new ordinary shares at 76 pence per new ordinary share and a placing of 87,591,241 shares at 137 pence per share, raising gross proceeds of £431m
- issue of a new €525m Eurobond with a coupon of 7.75% which matures in June 2020
- a new £470m four year banking facility maturing in May 2017 to replace prior facilities, together with an additional £191m facility available from 2015 and a separate £30m bonding facility which matures in May 2015

The Directors consider that the fair value of the Group's borrowings with a carrying value of £1,290.3m is £1,349.9m (2012: carrying value £1,015.4m; fair value £739.4m). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to maturity or repayment as at the year end. The fair value of the issued bonds has been derived using the quoted market price as at 30 September 2013. For items maturing in less than one year, the Directors consider that the fair value is equal to the carrying amount.

During the year £6.5m (2012: £7.9m) of capitalised transaction costs relating to banking facilities have been recognised within finance costs in the income statement. In addition, following the agreement of the new financing package £6.8m (2012: £22.3m) of capitalised fees associated with the old debt facility have been written off and included within 'Separately disclosed items – finance costs'.

**Borrowing facilities**

As at 30 September 2013, the Group had undrawn committed debt facilities of £290.4m (2012: £793.3m) and undrawn committed debt facilities plus cash available to repay revolving credit facility of £1,207m (2012: £980.8m). 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.

**Covenant measures**

The covenant measures are tested on a quarterly rolling 12 month basis and consist of a leverage covenant and a fixed charge covenant. The leverage covenant is a measure of pre-exceptional earnings before interest, tax, depreciation, amortisation and aircraft operating lease rentals compared to net debt. The fixed charge covenant is a measure of pre-exceptional earnings before interest, tax, depreciation, amortisation and operating lease charges compared to net interest and aircraft operating lease rental plus retail rental charges. The leverage and fixed charge covenant hurdles vary depending on the period that they relate to and range between 1.54x to 4.51x and 1.62x to 2.45x respectively.



## 22 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2013 £m	2012 £m	2013 £m	2012 £m
Amounts payable under finance leases				
Within one year	58.7	48.8	42.7	32.6
Between one and five years	165.2	170.6	126.1	129.5
After five years	66.7	84.8	55.7	71.1
	290.6	304.2	224.5	233.2
Less: future finance charges	(66.1)	(71.0)	–	–
Present value of lease obligations	224.5	233.2	224.5	233.2
Less: amount due for settlement within 12 months (shown under current liabilities)			(42.7)	(32.6)
Amount due for settlement after 12 months			181.8	200.6

The currency analysis of amounts payable under finance leases is

	2013 £m	2012 £m
Euro	14.7	14.1
US dollar	209.8	219.1
	224.5	233.2

Finance leases principally relate to aircraft and aircraft spares

No arrangements have been entered into for contingent rental payments

The Directors consider that the fair value of the Group's finance lease obligations with a carrying value of £224.5m was £239.2m at 30 September 2013 (2012 carrying value £233.2m fair value £254.1m). The fair values quoted were determined on the basis of the interest rates for the corresponding terms to repayment as at the year end. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

1  
Strategic report2  
Directors' report3  
Financial statements

**Transformation** the first 365 days

## Notes to the financial statements continued

**23 Financial instruments****Carrying values of financial assets and liabilities**

The carrying values of the Group's financial assets and liabilities as at 30 September 2013 and 30 September 2012 are as set out below

	Held for trading £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Available- for sale £m	Financial liabilities at amortised cost £m
<b>At 30 September 2013</b>					
Non current asset investments	–	–	–	1 2	–
Trade and other receivables	–	–	404 2	1 3	–
Cash and cash equivalents	–	–	1,088 8	–	–
Trade and other payables	–	–	–	–	(1,922 3)
Borrowings	–	–	–	–	(1,290 3)
Obligations under finance leases	–	–	–	–	(224 5)
Provisions arising from contractual obligations	–	–	–	–	(394 8)
Derivative financial instruments	(2 4)	(39 7)	–	–	–
	(2 4)	(39 7)	1,493 0	2 5	(3,831 9)

	Held for trading £m	Derivative instruments in designated hedging relationships £m	Loans & receivables £m	Available for sale £m	Financial liabilities at amortised cost £m
<b>At 30 September 2012</b>					
Non-current asset investments	–	–	10 2	1 2	–
Trade and other receivables	–	–	471 2	1 7	–
Cash and cash equivalents	–	–	460 3	–	–
Trade and other payables	–	–	–	–	(1,913 2)
Borrowings	–	–	–	–	(1,015 4)
Obligations under finance leases	–	–	–	–	(233 2)
Provisions arising from contractual obligations	–	–	–	–	(371 3)
Derivative financial instruments	3 4	(36 1)	–	–	–
	3 4	(36 1)	941 7	2 9	(3 533 1)

**Derivative financial instruments**

The fair values of derivative financial instruments as at 30 September 2013 were

	Interest rate swaps £m	Currency contracts £m	Fuel contracts £m	Total £m
At 1 October 2011	(3 0)	39 5	(4 3)	32 2
Movement in fair value during the year	(0 6)	(74 3)	10 0	(64 9)
At 1 October 2012	(3 6)	(34 8)	5 7	(32 7)
Movement in fair value during the year	(1 4)	(3 0)	(5 0)	(9 4)
<b>At 30 September 2013</b>	(5 0)	(37 8)	0 7	(42 1)

23 Financial instruments *continued*

	2013 £m	2012 £m
Non-current assets	0 1	0 2
Current assets	25 0	39 2
Current liabilities	(63 9)	(68 4)
Non-current liabilities	(3 3)	(3 7)
	(42 1)	(32 7)

**Fair value hierarchy**

The fair value of the Group's financial instruments are disclosed in hierarchy levels depending on the valuation method applied  
The different methods are defined as follows

Level 1 valued using unadjusted quoted prices in active markets for identical financial instruments

Level 2 valued using techniques based on information that can be obtained from observable market data

Level 3 valued using techniques incorporating information other than observable market data as at least one input to the valuation cannot be based on observable market data

The fair value of the Group's financial assets and liabilities at 30 September 2013 are set out below

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Currency contracts	–	15 2	–	15 2
Fuel contracts	–	9 8	–	9 8
Securities	1 3	–	–	1 3
<b>Financial liabilities</b>				
Currency contracts	–	(53 0)	–	(53 0)
Fuel contracts	–	(9 1)	–	(9 1)
Interest rate swaps	–	(5 0)	–	(5 0)
<b>At 30 September 2013</b>	<b>1 3</b>	<b>(42 1)</b>	<b>–</b>	<b>(40 8)</b>

The fair value of the Group's financial assets and liabilities at 30 September 2012 are set out below

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets</b>				
Currency contracts	–	25 9	–	25 9
Fuel contracts	–	13 4	–	13 4
Securities	1 7	–	–	1 7
<b>Financial liabilities</b>				
Currency contracts	–	(60 7)	–	(60 7)
Fuel contracts	–	(7 7)	–	(7 7)
Interest rate swaps	–	(3 6)	–	(3 6)
<b>At 30 September 2012</b>	<b>1 7</b>	<b>(32 7)</b>	<b>–</b>	<b>(31 0)</b>

The Group uses derivative financial instruments to hedge significant future transactions and cash flows denominated in foreign currencies. The Group enters into foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The fair value of currency contracts designated in a cash flow hedge as at 30 September 2013 was a liability of £33.1m (2012: £38.2m liability).

Strategic report 1

Directors' report 2

Financial statements 3

Let's  
go!

**Transformation the first 365 days****Notes to the financial statements continued****23 Financial instruments continued**

Currency hedges are entered into up to a maximum of 18 months in advance of the forecasted requirement. As at 30 September 2013, the Group had in place currency hedging derivative financial instruments with a maximum maturity of October 2014. All foreign exchange hedges are designated as cash flow hedges.

The Group also uses derivative financial instruments to mitigate the risk of adverse changes in the price of fuel. The Group enters into fixed price contracts (swaps) and net purchased options in the management of its fuel price exposures. All fuel hedges are designated as cash flow hedges.

Fuel price hedges are entered into up to a maximum of 18 months in advance of forecasted consumption of fuel. As at 30 September 2013, the Group had in place fuel price hedging derivative financial instruments with a maximum maturity of December 2014.

In addition, the Group uses derivative financial instruments to manage its interest rate exposures. The Group enters into interest rate swaps to hedge against interest rate movements in connection with the financing of aircraft and other assets. The Group also enters into cross currency interest rate swaps to hedge the interest rate and the currency exposure on foreign currency external borrowings. The fair value of interest rate swaps and cross currency contracts in a designated cash flow hedge relationship at 30 September was a liability of £2.5m (2012: £3.6m liability).

During the year the Group entered into interest rate swaps with a notional value of €300m on the €525m loan notes disclosed in Note 21. These interest rate swaps have been designated as hedging instruments in a fair value hedge relationship and their fair value is £2.5m (2012: nil).

As at 30 September 2013, the maximum maturity of interest rate derivatives was June 2020.

The fair values of the Group's derivative financial instruments have been calculated using underlying market prices available on 30 September 2013.

During the year, a loss of £8.6m (2012: £48.4m gain) was transferred from the hedging reserve to the income statement following recognition of the hedged transactions. The amount included in each line item in the income statement is shown below. In addition, a gain of £1.6m was recognised in the income statement in respect of the forward points on foreign exchange cash flow hedging contracts (2012: £1.9m gain) and a loss of £4.0m in respect of the movement in the time value of options in cash flow hedging relationships (2012: £9.1m gain).

	2013 £m	2012 £m
Cost of providing tourism services		
– release from hedge reserve	(8.6)	48.4
– time value on options	(4.0)	9.1
Finance income/(costs)		
– release from hedge reserve	–	0.1
– forward points on foreign exchange cash flow hedging contracts	1.6	1.9
– fair value movements on derivatives in designated fair value hedge	(3.4)	–

The fair value adjustment on hedged items designated in a fair value hedge is £51k (2012: nil).

During the year a loss of £1.6m (2012: £4.7m loss) was taken directly to the income statement in respect of held for trading derivatives that are used to hedge Group balance sheet exposure. This has been recorded within net foreign exchange gain for the year of £12.1m (2012: £19.9m gain) which is included within cost of providing tourism services.

The closing hedging reserve, excluding the impact of tax, was a loss of £31.5m (2012: £26.3m loss). The periods in which the cash flows are expected to occur and when they are expected to impact the income statement are a loss of £29.9m (2012: £25.3m loss) within one year and a loss of £1.6m (2012: £1.0m gain) between one and five years.

**24 Financial risk**

The Group is subject to risks related to changes in interest rates, exchange rates, fuel prices, counterparty credit and liquidity within the framework of its business operations.

**Interest rate risk**

The Group is subject to risks arising from interest rate movements in connection with the issue of Eurobonds, bank debt, aircraft financing and cash investments. Interest rate swaps are used to manage these risks and are designated as both cash flow and fair value hedges.

**Foreign exchange rate risk**

The Group has activities in a large number of countries and is therefore subject to the risk of foreign exchange rate fluctuations. These risks arise in connection with the procurement of services in destinations outside the source market. For example, US Dollar exposure arises on the procurement of fuel and operating supplies for aircraft, as well as investments in aircraft.

## 24 Financial risk continued

The Group requires segments to identify and appropriately hedge all exposures in line with approved treasury policies designed to reflect the commercial risk of each underlying business. Each segmental hedging policy covers the hedge build up, permitted instruments in use and further risk mitigation. The maximum hedge tenor is 18 months and each segment should achieve at least an 80% hedge ratio prior to the start of the season.

The Group uses currency forwards, currency swaps and currency options to manage currency risks and these are usually designated as cash flow hedges.

### Fuel price risk

Exposure to fuel price risk arises due to flying costs incurred by the Group's aircraft.

The Group requires segments to identify and appropriately hedge all exposures in line with approved treasury policies designed to reflect the commercial risk of each underlying business. Each segmental hedging policy covers the hedge build up, permitted instruments and further risk mitigation. The maximum hedge tenor is 18 months and each segment should achieve at least an 80% hedge ratio prior to the start of the season.

The Group uses commodity derivative contracts, including fixed price contracts (swaps) and net purchased options to manage fuel price risk and these are usually designated as cash flow hedges.

The market risks that the Group is subject to have been identified as interest rate risk, exchange rate risk and fuel price risk. The impact of reasonably possible changes in these risk variables on the Group, based on the period end holdings of financial instruments, have been calculated and are set out in the tables below. In each case it has been assumed that all other variables remain constant. As at 30 September 2013, the sensitivity of these risks to the defined scenario changes are set out below.

### Interest rate risk

	2013		2012	
	Impact on profit before tax £m	Impact on equity £m	Impact on profit before tax £m	Impact on equity £m
1% (2012: 1%) increase in interest rates	4.4	–	1.2	–
0.25% (2012: 0.25%) decrease in interest rates	(1.1)	–	(0.3)	–

### Foreign exchange rate risk

	2013		2012	
	Impact on profit before tax £m	Impact on equity £m	Impact on profit before tax £m	Impact on equity £m
5% (2012: 5%) strengthening of Euro	(57.0)	11.0	(12.4)	19.0
5% (2012: 5%) weakening of Euro	44.8	(2.4)	10.7	(15.5)
5% (2012: 5%) strengthening of US Dollar	(6.0)	65.1	(18.1)	56.9
5% (2012: 5%) weakening of US Dollar	2.8	(52.5)	16.3	(52.5)

### Fuel price risk

	2013		2012	
	Impact on profit before tax £m	Impact on equity £m	Impact on profit before tax £m	Impact on equity £m
10% (2012: 10%) increase in fuel price	0.4	42.5	0.1	32.4
10% (2012: 10%) decrease in fuel price	(4.9)	(38.2)	(3.8)	(27.0)

Given recent historical movements in fuel prices management believes a 10% shift is a reasonable possibility.

**Transformation the first 365 days**

## Notes to the financial statements continued

**24 Financial risk continued****Liquidity risk**

The liquidity position of the Group is significantly influenced by the booking and payment pattern of customers. As a result liquidity is at its lowest in the winter months and at its highest in the summer months. The Group manages the seasonal nature of its liquidity by making use of its banking facility, the terms of which, including the covenant measures, are detailed in the borrowings note (refer to note 21). The Group also uses liquidity swaps to manage short term currency positions. These liquidity swaps are presented as held-for-trading financial instruments.

The undrawn committed debt facility plus cash available to repay revolving credit facility ranged between £217.8m and £1,233.8m during the current financial year (2012: £156m-£981m).

Surplus short-term liquidity is invested in accordance with approved treasury policies.

Financial liabilities are analysed below based on the time between the year end and their contractual maturity. The amounts shown are estimates of the undiscounted future cash flows and will differ from both carrying value and fair value.

	Amount due				Total £m
	in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	
<b>At 30 September 2013</b>					
Trade and other payables	1,752.9	73.3	92.4	3.7	1,922.3
Borrowings	146.9	31.6	824.9	644.4	1,647.8
Obligations under finance leases	13.2	45.5	165.2	66.7	290.6
Derivative financial instruments					
– payable	1,083.7	1,233.7	138.6	–	2,456.0
– receivable	(1,079.1)	(1,193.0)	(132.0)	–	(2,404.1)
Provisions arising from contractual obligations	51.0	181.0	123.7	39.2	394.9
	1,968.6	372.1	1,212.8	754.0	4,307.5

	Amount due				Total £m
	in less than 3 months £m	between 3 and 12 months £m	between 1 and 5 years £m	in more than 5 years £m	
<b>At 30 September 2012</b>					
Trade and other payables	1,657.0	141.6	111.6	3.0	1,913.2
Borrowings	11.4	27.0	1,180.3	0.7	1,219.4
Obligations under finance leases	12.4	36.4	170.6	84.8	304.2
Derivative financial instruments					
– payable	2,264.3	1,007.0	10.1	–	3,281.4
– receivable	(2,246.3)	(980.6)	(9.4)	–	(3,236.3)
Provisions arising from contractual obligations	31.7	127.8	183.9	29.7	373.1
	1,730.5	359.2	1,647.1	118.2	3,855.0

For all gross settled derivative financial instruments, such as foreign currency forward contracts and swaps, the pay and receive leg has been disclosed in the table above. For net settled derivative financial instruments, such as fuel swaps and options, the fair value as at the year end of those instruments in a liability position has been disclosed in the table above. Trade and other payables include non-financial liabilities of £170.1m (2012: £190.7m) which have not been analysed above.

**Counterparty credit risk**

The Group is exposed to credit risk in relation to deposits, outstanding derivatives and trade and other receivables. The maximum exposure in respect of each of these items at the balance sheet date is their carrying value. The Group assesses its counterparty exposure in relation to the investment of surplus cash, fuel contracts, foreign exchange and interest rate hedging contracts and undrawn credit facilities. The Group primarily uses published credit ratings to assess counterparty strength and therefore to define the credit limit for each counterparty in accordance with approved treasury policies.

The Group's approach to credit risk in respect of trade and other receivables is explained in note 18.

## 25 Insurance

### Management of insurance risk

Incidental to its main business the Group, through its subsidiary White Horse Insurance Ireland Limited, issues contracts that transfer significant insurance risk and that are classified as insurance contracts. As a general guideline, the Group defines as significant insurance risk the possibility of having to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

Business written includes standard commercial risks for the Group and travel insurance for both Group and non-Group customers.

The principal nature of travel insurance risks is one of short-term, low value and high volume. Underwriting performance is monitored on an ongoing basis and pricing reviewed annually for each individual contract. Exposure is capped by specific limits within the insurance policy and by using reinsurance contracts for any claims in excess of these retention limits. Commercial policies with the Group are subject to policy excesses and single event and aggregate limits.

Insurance risk is spread across several European countries where the Group operates including the UK, Ireland and Continental Europe.

When estimating the cost of claims outstanding at the year end, the principal assumption underlying the estimates is the Group's past development pattern. This includes assumptions in respect of historic claims costs, average claims handling expenses and market developments. The Group also uses an independent actuary to review its liabilities to ensure that the carrying values are adequate. Any changes to these variables are not expected to have a material effect on the Group financial statements.

The Group operates a reinsurance policy approved by the White Horse Insurance Ireland Ltd Board of Directors which ensures that reinsurers have a financial stability rating of B+ (A.M. Best) or above. The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to the credit risk of its insurance receivables.

### Income and expenses arising directly from insurance contracts

	2013 £m	2012 £m
<b>Revenue</b>		
Net earned premium income	6.3	10.0
Deposit interest	–	0.1
	<b>6.3</b>	<b>10.1</b>
<b>Expenses</b>		
Claims incurred	5.9	7.7
Other operating expenses	1.1	0.9
	<b>7.0</b>	<b>8.6</b>

### Assets and liabilities arising directly from insurance contracts

	2013 £m	2012 £m
<b>Assets</b>		
Receivables arising out of direct insurance operations	1.5	2.2
Prepayments	0.1	0.1
	<b>1.6</b>	<b>2.3</b>
<b>Liabilities</b>		
Deferred income arising from unearned premiums	1.3	2.5
Claims accruals	7.8	8.0
Insurance premium tax payable	1.2	1.5
Other creditors	0.1	0.2
Accruals and deferred income	1.3	1.6
	<b>11.7</b>	<b>13.8</b>

1  
Strategic report2  
Directors' report3  
Financial statements

**Transformation** the first 365 days

## Notes to the financial statements continued

**25 Insurance** *continued***Reconciliation of movement in insurance liabilities**

	Deferred income arising from unearned premiums £m	Claims accruals £m
At 1 October 2012	2.5	8.0
Net earned premium income	(6.3)	–
Premiums written	5.1	–
Claims incurred	–	5.9
Claims paid	–	(6.1)
<b>At 30 September 2013</b>	<b>1.3</b>	<b>7.8</b>

**26 Deferred tax**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting year

	Aircraft finance leases £m	Retirement benefit obligations £m	Fair value of financial instruments £m	Other temporary differences £m	Tax losses £m	Total £m
At 30 September 2011	(7.2)	38.1	(5.7)	(47.2)	182.4	160.4
(Charge)/credit to income	(47.3)	(5.2)	(7.5)	28.3	(46.2)	(77.9)
Credit to equity	–	12.3	19.8	–	–	32.1
Reclassifications	–	2.7	(4.2)	1.6	(0.1)	–
Acquisitions	–	–	–	(2.6)	–	(2.6)
Disposals	–	–	–	5.9	–	5.9
Exchange differences	–	0.8	(0.3)	1.2	(4.6)	(2.9)
At 30 September 2012	(54.5)	48.7	2.1	(12.8)	131.5	115.0
(Charge)/credit to income	0.5	(5.4)	(5.8)	(21.8)	26.8	(5.7)
Credit to equity	–	(0.2)	0.9	–	–	0.7
Reclassifications	(8.7)	(0.2)	4.2	4.7	–	–
Disposals	–	–	–	6.3	–	6.3
Transferred to assets held for sale	–	–	–	(0.2)	–	(0.2)
Other	–	(0.1)	–	(0.9)	0.3	(0.7)
Exchange differences	(0.8)	0.6	(0.9)	(1.5)	2.4	(0.2)
<b>At 30 September 2013</b>	<b>(63.5)</b>	<b>43.4</b>	<b>0.5</b>	<b>(26.2)</b>	<b>161.0</b>	<b>115.2</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes

	2013 £m	2012 £m
Deferred tax liabilities	(52.8)	(89.7)
Deferred tax assets	168.0	204.7
	<b>115.2</b>	<b>115.0</b>

At the balance sheet date, the Group had unused tax losses of £2,624.6m (2012: £2,460.2m) available for offset against future profits. Deferred tax assets have only been recognised where there is sufficient probability that there will be future taxable profits against which the assets may be recovered. No deferred tax asset has been recognised in respect of tax losses of £1,940.5m (2012: £1,933.9m) due to the unpredictability of future profit streams.

Other temporary differences on which deferred tax has been provided primarily relate to the difference in book to tax value on qualifying tax assets, provisions for which tax relief was not originally available, and fair value accounting on properties acquired as part of the merger.



## 26 Deferred tax continued

In addition the Group had unused other temporary differences in respect of which no deferred tax asset has been recognised amounting to £385.3m (2012 £253.5m), also due to the unpredictability of future profit streams

Deferred tax liabilities were offset against the corresponding deferred tax assets where both items fell within the responsibility of the same tax authority

The deferred tax assets and liabilities at the year end, without taking into consideration the offsetting balances within the same jurisdiction are £252.1m and £136.9m respectively

Finance Act 2012 reduced the main rate of UK corporation tax from 24% to 23% with effect from 1 April 2013, resulting in a UK current tax rate of 23.5% applicable to the year ended 30 September 2013. Finance Act 2013 was substantively enacted on 2 July 2013 and included further UK rate reductions, with the main rate of UK corporation tax to reduce to 21% from 1 April 2014 and 20% from 1 April 2015. The effect of this change on deferred tax balances is included in these financial statements and has resulted in a decrease in deferred tax assets of £14.1m

## 27 Provisions

	Aircraft maintenance provisions £m	Other provisions £m	Total £m
At 1 October 2012	247.4	168.4	415.8
Additional provisions in the year	66.2	134.3	200.5
Unused amounts released in the year	(6.4)	(34.0)	(40.4)
Unwinding of discount	–	2.6	2.6
Utilisation of provisions	(53.6)	(111.5)	(165.1)
Exchange differences	2.1	3.5	5.6
<b>At 30 September 2013</b>	<b>255.7</b>	<b>163.3</b>	<b>419.0</b>
Included in current liabilities	125.4	121.4	246.8
Included in non-current liabilities	130.3	41.9	172.2
<b>At 30 September 2013</b>	<b>255.7</b>	<b>163.3</b>	<b>419.0</b>
Included in current liabilities	81.0	120.5	201.5
Included in non-current liabilities	166.4	47.9	214.3
At 30 September 2012	247.4	168.4	415.8

The aircraft maintenance provisions relate to maintenance on leased aircraft and spares used by the Group's airlines in respect of leases which include contractual return conditions. This expenditure arises at different times over the life of the aircraft with major overhauls typically occurring between two and ten years (see accounting policies for more details)

### Other provisions

	Off market leases £m	Insurance and litigation £m	Reorganisation and restructuring plans £m	Deferred and contingent consideration £m	Other £m	Total £m
At 1 October 2012	33.7	35.8	35.8	26.2	36.9	168.4
Additional provisions	0.3	38.2	57.1	1.1	37.6	134.3
Unused amounts released	–	(4.1)	(5.9)	(14.6)	(9.4)	(34.0)
Unwinding of discount	2.2	–	–	0.4	–	2.6
Utilisation of provisions	(7.8)	(30.0)	(44.5)	(8.0)	(21.2)	(111.5)
Exchange differences	1.5	0.4	0.8	–	0.8	3.5
<b>At 30 September 2013</b>	<b>29.9</b>	<b>40.3</b>	<b>43.3</b>	<b>5.1</b>	<b>44.7</b>	<b>163.3</b>

Off market leases relate to leases acquired through the Hi!Hotels International Limited acquisition and The Co-operative Group and Midlands Co-operative, and MyTravel Group plc mergers, which have commitments in excess of the market rate at the time of the transaction. Insurance and litigation represents costs related to legal disputes, customer compensation claims and estimated costs arising through insurance contracts in the Group's subsidiary, White Horse Insurance Ireland Limited. Reorganisation and restructuring plans predominantly represent committed restructuring costs in the UK and Continental segments. Deferred and contingent consideration represents future purchase options on Think W3 Limited acquisitions.

**Transformation** the first 365 days

## Notes to the financial statements continued

**27 Provisions continued**

'Other' represents liabilities where there is uncertainty of the timing or amount of the future expenditure required in settlement and includes such items as onerous contracts, dilapidations and emissions trading liabilities. This grouping contains no single category larger than £15m.

Provisions included in non-current liabilities are principally in respect of off-market lease contracts and are expected to be utilised over the term of the contracts which extend up to 10 years from the balance sheet date and deferred and contingent consideration arising on acquisitions.

**28 Discontinued operations and assets classified as held for sale**

Following the sale on 1 May 2013 of the business previously disclosed within the North America segment, the results of these businesses have been included as discontinued operations.

**Consolidated Income Statement- discontinued operations**

	Year ended 30 September 2013			Year ended 30 September 2012		
	Underlying results £m	Separately disclosed items £m	Total £m	Underlying results £m	Separately disclosed items £m	Total £m
Revenue	174.8	–	174.8	296.2	–	296.2
Cost of providing tourism services	(142.8)	–	(142.8)	(252.3)	–	(252.3)
Gross profit	32.0	–	32.0	43.9	–	43.9
Personnel expenses	(22.0)	–	(22.0)	(41.0)	(3.1)	(44.1)
Depreciation and amortisation	(2.5)	–	(2.5)	(4.0)	–	(4.0)
Net operating expenses	(9.5)	–	(9.5)	(19.8)	(14.5)	(34.3)
Profit/(loss) on disposal of assets	–	2.9	2.9	–	(1.2)	(1.2)
Impairment of goodwill and amortisation of business combination intangibles	–	(0.9)	(0.9)	–	(109.5)	(109.5)
<b>(Loss)/profit from operations</b>	<b>(2.0)</b>	<b>2.0</b>	<b>–</b>	<b>(20.9)</b>	<b>(128.3)</b>	<b>(149.2)</b>
Finance income	0.4	–	0.4	0.5	–	0.5
Finance costs	(0.1)	0.1	–	(0.2)	0.4	0.2
<b>(Loss)/profit before tax</b>	<b>(1.7)</b>	<b>2.1</b>	<b>0.4</b>	<b>(20.6)</b>	<b>(127.9)</b>	<b>(148.5)</b>
Tax			(0.1)			(0.7)
<b>Profit/(loss) for the year</b>			<b>0.3</b>			<b>(149.2)</b>

**Cash flows- discontinued operations**

	2013 £m	2012 £m
Net cash used in operating activities	(30.1)	(6.6)
Net cash (used in)/from investing activities	(1.5)	6.4
Net cash used in financing activities	(0.1)	(0.7)

**Assets classified as held-for-sale**

	2013 £m	2012 £m
<b>Assets</b>		
Intangible assets	0.3	–
Property, plant and equipment	7.9	–
Non-current asset investments	36.6	–
Inventories	4.4	–
Tax assets	0.2	–
Trade and other receivables	16.0	–
Cash and cash equivalents	4.7	–
	<b>70.1</b>	<b>–</b>

28 Discontinued operations and assets classified as held for sale *continued*

	2013 £m	2012 £m
<b>Liabilities</b>		
Trade and other payables	17 0	–
	<b>17 0</b>	<b>–</b>

In the current year the assets and liabilities of the Egyptian and Lebanese businesses Neilson Active Holidays and Thomas Cook CFX Ltd, all of which were reported within the UK segment, have been classified as held for sale. In addition the Group has included its investment in UK National Air Traffic Services which has been written up by £29m to the expected disposal value. The Group expects to complete the sale of these businesses within the next 12 months.

## 29 Called-up share capital

	Allotted called up and fully paid			Allotted called up and partly paid			Deferred shares	
	Ordinary shares of €0.10 each	Ordinary shares of €0.01 each	Deferred shares of €0.09 each	Ordinary shares of €0.10 each £m	Ordinary shares of €0.01 each £m	Deferred shares of €0.09 each £m	Deferred shares of €1 each 25p paid	Deferred shares of €1 each 25p paid £m
At 1 October 2012	885 900,334	–	–	60.0	–	–	50,000	–
Exercise of warrants	49,081 604	21,800,777	–	4.0	0.2	–	–	–
Capital reorganisation	(934,981 938)	934 981,938	934,981 938	(64.0)	6.4	57.6	–	–
Private placement	–	87,591,241	–	–	0.7	–	–	–
Rights issue	–	409,029 271	–	–	3.5	–	–	–
<b>At 30 September 2013</b>	<b>–</b>	<b>1,453,403,227</b>	<b>934,981,938</b>	<b>–</b>	<b>10.8</b>	<b>57.6</b>	<b>50,000</b>	<b>–</b>

As part of the £200m bank facility announced on 25 November 2011 the Company issued Warrants to certain of its lenders giving holders the right at any time until 22 May 2015, to subscribe for up to an aggregate of approximately 42,914,640 ordinary shares at a subscription price per share of 19.875 pence. On 10 May 2012 the Company issued Warrants as part of the bank facility amendment announced on 5 May 2012 to certain of its lenders giving holders the right, at any time until 22 May 2015, to subscribe for up to an aggregate of 43 749,516 (subsequently increased by 4 440,376 ordinary shares to reflect the Company's Rights Issue in June 2013) ordinary shares at a subscription price per share of €0.10 per share (subsequently adjusted to €0.0857282 to reflect the Company's Rights Issue in June 2013). In addition, the Warrants issued as part of the bank facility announced in December 2011 were re-priced to the same exercise price. As at 27 November 2013, 17 Warrant holders had exercised their Subscription Rights in respect of 81 974,478 Warrants (exercised into ordinary shares on a one for-one basis).

## Contingent rights to the allotment of shares

As at 30 September 2013, options to subscribe for ordinary shares were outstanding with respect to the Thomas Cook Group plc 2007 Performance Share Plan, the Thomas Cook Group plc 2008 Co-Investment Plan, the Thomas Cook Restricted Share Plan and the Thomas Cook Group plc 2008 Save As You Earn Scheme. For further details refer to note 34. On exercise the awards of shares under the plan will be satisfied by either purchases in the market of existing shares or, subject to institutional guidelines, issuing new shares.

## Own shares held in trust

Shares of the Company are held under trust by EES Trustees International Limited in respect of the Thomas Cook Group plc 2007 Performance Share Plan, the Thomas Cook Group plc 2008 Co-Investment Plan and the Thomas Cook Restricted Share Plan and are held by Equiniti Share Plan Trustees Limited in connection with the Thomas Cook Group plc Buy As You Earn Scheme. In accordance with IFRS, these are treated as Treasury Shares and are included in "other reserves" in the balance sheet.

The number of shares held at 30 September 2013 by EES Trustees International Limited and Equiniti Share Plan Trustees Limited was 17,245 721 (2012 3,551,668) and 438,615 (2012 432 653) respectively. The cumulative cost of acquisition of these shares was £29.5m (2012 £13.4m) and the market value at 30 September 2013 was £27.1m (2012 £1.5m). Shares held by the trust have been excluded from the weighted average number of shares used in the calculation of earnings per share.

**Transformation** the first 365 days

## Notes to the financial statements continued

**29 Called-up share capital** *continued***Issue of company shares**

In order to enable the Company to carry out an issue of ordinary shares without being in breach of its Warrant Instrument requirements, the Company undertook a Capital Reorganisation on 3 June 2013. Under the Capital Reorganisation, each existing ordinary share of €0.10 nominal value was subdivided into one Ordinary Share of €0.01 nominal value and one Deferred Share of €0.09 nominal value.

During the year the Company raised gross proceeds of approximately £431 million by way of a Placing and a Rights Issue. Under the placing 87,591,241 €0.01 Ordinary Shares were issued on 3 June 2013 immediately following the capital reorganisation outlined above. 409,029,271 €0.01 Ordinary Shares were issued through the Rights Issue on 20 June 2013 on the basis of two new shares for every five €0.01 ordinary shares held by shareholders on 3 June 2013 immediately following the Placing.

**Capital management**

The Group's objectives when managing capital are to safeguard the 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.

The Group continues to make strengthening its balance sheet a priority and has been taking further steps to achieve this in the current year, through the issue of equity capital in its June 2013 Placement and Rights Issue and the announcement of its new Profitable Growth Strategy on 13 March 2013, in addition to the sale of non-core assets and suspension of dividends.

The capital structure of the Group consists of debt, cash and cash equivalents (as shown in note 31) and equity attributable to equity holders of the parent (as shown in the Group balance sheet). At the balance sheet date the Group had total capital of £930.7m (2012: £1,194.8m).

**30 Hedging and translation reserves**

	Hedging reserve £m	Translation reserve £m	Total £m
At 1 October 2011	38.9	278.0	316.9
Foreign exchange translation losses	–	(30.7)	(30.7)
Fair value losses deferred for the year	(31.9)	–	(31.9)
Fair value gains transferred to the income statement	(48.4)	–	(48.4)
Tax on fair value gains and losses and transfers	19.8	–	19.8
At 30 September 2012	(21.6)	247.3	225.7
Foreign exchange translation losses	–	(19.6)	(19.6)
Fair value losses deferred for the year	(13.8)	–	(13.8)
Fair value losses transferred to the income statement	8.6	–	8.6
Tax on fair value gains and losses and transfers	0.9	–	0.9
<b>At 30 September 2013</b>	<b>(25.9)</b>	<b>227.7</b>	<b>201.8</b>

## 31 Net debt

	At 1 October 2012 £m	Cash flow £m	Transfer to held for sale £m	Other non cash changes £m	Exchange movements £m	At 30 September 2013 £m
<b>Liquidity</b>						
Cash and cash equivalents	460.3	630.9	(4.7)	—	2.3	<b>1,088.8</b>
Cash classified as held-for-sale	—	—	4.7	—	—	<b>4.7</b>
	460.3	630.9	—	—	2.3	<b>1,093.5</b>
<b>Current debt</b>						
Bank overdrafts	(6.8)	3.9	—	—	(0.3)	<b>(3.2)</b>
Short-term borrowings	(0.6)	(132.9)	—	—	(0.5)	<b>(134.0)</b>
Current portion of long-term borrowings	(30.4)	24.7	—	(32.1)	(1.5)	<b>(39.3)</b>
Obligations under finance leases	(32.6)	9.7	—	(19.2)	(0.6)	<b>(42.7)</b>
	(70.4)	(94.6)	—	(51.3)	(2.9)	<b>(219.2)</b>
<b>Non-current debt</b>						
Long term borrowings	(977.6)	(139.8)	—	15.9	(12.3)	<b>(1,113.8)</b>
Obligations under finance leases	(200.6)	22.6	—	(3.7)	(0.1)	<b>(181.8)</b>
	(1,178.2)	(117.2)	—	12.2	(12.4)	<b>(1,295.6)</b>
<b>Total debt</b>	<b>(1,248.6)</b>	<b>(211.8)</b>	<b>—</b>	<b>(39.1)</b>	<b>(15.3)</b>	<b>(1,514.8)</b>
<b>Net debt</b>	<b>(788.3)</b>	<b>419.1</b>	<b>—</b>	<b>(39.1)</b>	<b>(13.0)</b>	<b>(421.3)</b>

## 32 Operating lease arrangements

## The Group as lessee

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

	Property and other 2013 £m	Aircraft and aircraft spares 2013 £m	Total 2013 £m	Property and other 2012 £m	Aircraft and aircraft spares 2012 £m	Total 2012 £m
Within one year	60.2	64.3	124.5	99.3	85.0	184.3
Later than one and less than five years	141.2	241.1	382.3	236.2	178.8	415.0
After five years	175.6	477.3	652.9	160.2	145.8	306.0
	377.0	782.7	1,159.7	495.7	409.6	905.3

Operating lease payments principally relate to rentals payable for the Group's retail shop and hotel properties and for aircraft and spares used by the Group's airlines

Shop leases are typically negotiated for an average term of five years

Leases for new aircraft are typically negotiated for an average term of 12 years, leases for second hand aircraft and extensions are typically much shorter

**Transformation the first 365 days**

## Notes to the financial statements continued

**32 Operating lease arrangements continued****The Group as lessor**

At the balance sheet date the Group had contracted with tenants for future minimum lease payments under non cancellable operating leases which fall due as follows

	Property 2013 £m	Aircraft 2013 £m	Total 2013 £m	Property 2012 £m	Aircraft 2012 £m	Total 2012 £m
Within one year	1 7	5 2	6 9	1 7	4 7	6 4
Later than one and less than five years	4 6	—	4 6	4 2	—	4 2
After five years	0 3	—	0 3	1 2	—	1 2
	6 6	5 2	11 8	7 1	4 7	11 8
Rental income earned during the year was	2 0	5 0	7 0	2 8	6 3	9 1

Certain of the Group's retail and other properties and aircraft, that are not being used in the Group's businesses, are sub-let on the best terms available in the market for varying periods with an average future committed period of 2.8 years for property (2012 2.9 years) and 6 months for aircraft (2012 6 months)

At 30 September 2013 no aircraft held under operating leases (2012 nil) were sub let by the Group

**33 Contingent liabilities**

	2013 £m	2012 £m
Contingent liabilities	100.5	126.0

Contingent liabilities primarily comprise guarantees letters of credit and other contingent liabilities including contingent liabilities related to structured aircraft leases all of which arise in the ordinary course of business. The amounts disclosed above represent the Group's contractual exposure

The Group complies with all the standards relevant to consumer protection and formal requirements in respect of package tour contracts and has all the necessary licences for the various sales markets. The customers' right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in all Thomas Cook sales markets in line with local legislation and within the various guarantee systems applied. In the United Kingdom, there is a fund mechanism whereby travel companies are required to collect and remit a small charge for each protected customer upon booking. Customer rights in relation to Thomas Cook Group in Germany, Belgium and Austria are guaranteed via an insolvency insurance system, in Ireland, Scandinavia and France via guarantees provided by banks and insurance companies, and in the Netherlands via a guaranteed fund

**34 Share-based payments**

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 £7.9m (2012 £2.0m charge)

**The Thomas Cook Group plc 2007 Performance Share Plan (PSP) and the HM Revenue & Customs Approved Company Share Option Sub-Plan (CSOSP)**

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 including adjusted earnings per share (EPS), total shareholder return (TSR) and the Company's share price are met during the 3 years following the date of grant. Subject to vesting conditions, the options are exercisable up to 10 years after 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 up to 3.5 Matching Shares if performance targets for EPS, return on invested capital (ROIC), TSR and the Company's share price are met during the 3 years following the date of grant. Subject to vesting conditions, the options or contingent share awards are exercisable up to 10 years after the date of grant.

### 34 Share-based payments *continued*

#### The Thomas Cook Group plc 2008 Save As You Earn Scheme (SAYE)

Eligible employees across the Group were offered options to purchase shares in the Company by entering into a three or four year savings contract. The option exercise price was set at a 10% (2010 grant) or 20% (2008 grant) discount to the market price at the offer date. Options are exercisable during the six months after the end of the savings contract.

#### 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 ten shares an employee buys in this way the Company will purchase one matching share on their behalf.

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

Senior executives 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. Subject to any vesting conditions, the options or contingent share awards are exercisable up to ten years after the date of grant.

The movements in options and awards during the year and prior year were

	2013				
	PSP	COIP	SAYE	CSOSP	RSP
Outstanding at beginning of year	26,561,228	5,344,824	2,278,404	212,968	159,538
Granted	10,791,150	–	–	–	895,809
Exercised	(164,107)	–	(43,441)	–	(39,201)
Lapsed	–	–	(115,405)	–	–
Cancelled	–	(1,955,356)	(497,447)	–	–
Forfeited	(8,164,900)	(1,233,669)	(57,864)	(136,908)	(246,969)
Rights issue adjustment	2,875,791	331,033	260,268	11,680	271,948
Outstanding at end of year	31,899,162	2,486,832	1,824,515	87,740	1,041,125
Exercisable at end of year	100,682	–	1,799,299	–	82,805
Exercise price (£)	nil	nil	1.57-2.15	1.97	nil
Average remaining contractual life (years)	8.7	7.7	0.3	7.3	9.5

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2013 was £1.45

	2012				
	PSP	COIP	SAYE	CSOSP	RSP
Outstanding at beginning of year	17,480,878	5,991,751	5,608,535	774,594	513,304
Granted	18,157,456	2,332,514	–	–	–
Exercised	–	–	–	–	(326,443)
Cancelled	–	(553,763)	(3,206,060)	–	–
Forfeited	(9,077,106)	(2,425,678)	(124,071)	(561,626)	(27,323)
Outstanding at end of year	26,561,228	5,344,824	2,278,404	212,968	159,538
Exercisable at end of year	174,233	–	–	–	159,538
Exercise price (£)	nil	nil	1.81-1.88	1.97	nil
Average remaining contractual life (years)	9.2	8.7	1.3	8.3	8.5

The weighted average share price at the date of exercise for the options exercised during the year ended 30 September 2012 was £0.17

**Transformation the first 365 days**

## Notes to the financial statements continued

**34 Share-based payments *continued***

The fair value of options and awards subject to adjusted EPS and ROIC performance targets was determined by the use of Black-Scholes models and the fair value of options subject to TSR performance targets was determined by the use of Monte Carlo simulations. For options and awards granted during the year the key inputs to the models were

	2013		
	PSP	COIP	RSP
Weighted average share price at measurement date	£1 07	–	£1 47
Weighted average exercise price	nil	–	nil
Expected volatility	50%	–	50%
Weighted average option life (years)	3	–	3
Weighted average risk-free rate	0.9%	–	0.7%
Expected dividend yield	nil	–	nil
Weighted average fair value at date of grant	£0 45	–	£0 66

	2012		
	PSP	COIP	RSP
Weighted average share price at measurement date	£0 17	£0 17	–
Weighted average exercise price	nil	nil	–
Expected volatility	50%	50%	–
Weighted average option life (years)	3	3	–
Weighted average risk-free rate	0.3%	0.4%	–
Expected dividend yield	0%	0%	–
Weighted average fair value at date of grant	£0 05	£0 04	–

Expected volatility has been based on the historic volatility of the Company's shares and the shares of other companies in the same or related sectors

**35 Retirement benefit schemes**

Pension schemes for the employees of the Thomas Cook Group consist of defined contribution plans and defined benefit plans, with the defined benefit plans being both funded and unfunded. The obligations arising from defined contribution plans are satisfied by contribution payments to both private and state-run insurance providers.

**Unfunded defined benefit pension obligations**

Unfunded defined benefit pension obligations primarily relate to the Group's employees in the German businesses of Thomas Cook AG and the Condor Group. Provisions are established on the basis of commitments made to those employees for old age and transitional pensions based on the legal, tax and economic circumstances of the individual countries and on the period of employment and level of remuneration of the respective employees.

Provisions for pensions and similar obligations totalling £251.9m (2012: £212.9m) were attributable to the pension commitments of the Condor Group (Condor Flugdienst GmbH, Condor Berlin GmbH and CF GmbH). For employees who joined a Condor Group company prior to 1995, the total pension commitment of the pensions authority of the German federal government and regional states was adjusted and maintained in the form of a company pension scheme. The flight crews were additionally entitled to a transitional provision for the period between the termination of their in-flight employment and the time they became eligible for a state-run or company pension. In both cases, the benefit commitment depended on the final salaries of the employees concerned prior to the termination of their in-flight employment (final salary plan). Employees who joined a Condor Group company from 1995 onwards participate in a company pension scheme under which the pension entitlements are based on the average salaries of those employees (average salary plan). The Condor Group also has retirement obligations arising from individual commitments and transitional provisions. In accordance with IAS 19, all these commitments are classified as unfunded defined benefit obligations and classified as such in these financial statements.



### 35 Retirement benefit schemes *continued*

The Condor Group defined benefit plans have been closed to new entrants (with the exception of pilots) since 2004

There are additional unfunded defined benefit obligations comprising individual commitments to executive staff at Thomas Cook Group and obligations in respect of past service for employees in the Northern Europe and West Europe segments

The unfunded pension schemes are accounted for as part of liabilities for retirement benefit obligations in the balance sheet

The following weighted average actuarial assumptions were made for the purpose of determining the unfunded defined benefit obligations

	2013 %	2012 %
Discount rate for scheme liabilities	3.75%	4.14%
Expected rate of salary increases	2.62%	2.58%
Future pension increases	1.42%	1.51%

The mortality tables 2005 G drawn up by Prof. Dr. Klaus Heubeck were used as the basis for the mortality assumptions used in arriving at the present value of the pension obligations at 30 September 2013. These assume a life expectancy for members currently aged 65 of 19 years for men and 23 years for women.

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows

	2013 £m	2012 £m
Current service cost	10.6	8.5
Past service cost	1.2	–
Gain on settlements	(2.3)	(2.0)
Curtailment gain	(1.0)	(0.3)
Interest cost on scheme liabilities	11.4	10.9
<b>Total included in the income statement</b>	<b>19.9</b>	<b>17.1</b>

Service costs, gains on settlement and curtailment gains have been included in personnel expenses in the income statement and the unwinding of the discount rate of the expected retirement benefit obligations has been included in finance costs. Actuarial gains and losses have been reported in the statement of comprehensive income.

Changes in the present value of unfunded pension obligations were as follows

	2013 £m	2012 £m
At beginning of year	253.5	227.8
Current service cost	10.6	8.5
Past service cost	1.2	–
Interest cost	11.4	10.9
Benefits paid	(6.8)	(6.1)
Settlements	(4.9)	(7.2)
Curtailments	(1.0)	(0.3)
Actuarial losses	19.7	37.1
Exchange difference	12.1	(17.2)
<b>At end of year</b>	<b>295.8</b>	<b>253.5</b>

1  
Strategic report2  
Directors' report3  
Financial statements

**Transformation** the first 365 days

## Notes to the financial statements continued

**35 Retirement benefit schemes** *continued***Funded defined benefit pension obligations**

The pension entitlements of employees of Thomas Cook UK and employees in Norway and the Netherlands 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 Group in funds under the control of trustees. Pension costs are assessed in accordance with the advice of qualified actuaries in each country. 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.

Funded defined benefit pension obligations have been determined on the basis of assumptions relevant to each country. The weighted averages of these were:

	2013 %	2012 %
Discount rate for scheme liabilities	4.41%	4.32%
Inflation rate	3.14%	2.66%
Expected return on scheme assets	5.03%	5.49%
Expected rate of salary increases	0.02%	0.18%
Future pension increases	0.25%	0.42%

The Thomas Cook UK Pension Plan accounts for approximately 92% (2012: 86%) of the total funded defined benefit obligations. The mortality assumptions used in arriving at the present value of those obligations at 30 September 2013 are based on the PMA92/PFA92 tables with medium cohort improvements and a minimum future longevity improvement per year of 1% adjusted for recent mortality experience. The mortality assumptions adopted for the plan liabilities indicate a further life expectancy for members currently aged 65 of 23.2 years for men and 25.2 years for women.

On 31 March 2011, the UK defined benefit schemes closed to all active members who were given the option of joining Thomas Cook's defined contribution scheme. The closure of the schemes resulted in a cessation of future pension benefit accrual and a consequent curtailment gain of £25.8m, which was recognised in the income statement for the year ended 30 September 2011.

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	2013 £m	2012 £m
Current service cost	3.3	2.3
Expected return on scheme assets	(41.2)	(41.4)
Interest cost on scheme liabilities	38.8	43.7
<b>Total loss included in the income statement</b>	<b>0.9</b>	<b>4.6</b>

Service costs and curtailment gains have been included in personnel expenses in the income statement and the unwinding of the discount rate of the expected retirement benefit obligations has been included in finance costs. The expected return on scheme assets has been included in finance income.

The actual return on scheme assets was £76.3m (2012: £63.9m).

Actuarial gains and losses have been reported in the statement of comprehensive income.

### 35 Retirement benefit schemes *continued*

Changes in the present value of funded defined benefit obligations were as follows

	2013 £m	2012 £m
At beginning of year	888.2	846.5
Current service cost	3.3	2.3
Interest cost	38.8	43.7
Benefits paid	(23.5)	(19.8)
Disposal of businesses	–	(1.2)
Expenses paid	(2.7)	(2.4)
Contributions paid by plan participants	0.3	0.2
Actuarial losses	92.5	21.1
Exchange difference	1.3	(2.2)
<b>At end of year</b>	<b>998.2</b>	<b>888.2</b>

Changes in the fair value of scheme assets were as follows

	2013 £m	2012 £m
At beginning of year	810.9	743.3
Expected return on scheme assets	41.2	41.4
Contributions from the sponsoring companies	28.0	28.7
Contributions paid by plan participants	0.3	0.2
Actuarial gains	35.0	22.5
Benefits paid	(23.5)	(19.8)
Disposal of businesses	–	(1.1)
Expenses paid	(2.7)	(2.4)
Exchange difference	0.4	(1.9)
<b>At end of year</b>	<b>889.6</b>	<b>810.9</b>

Following the 2008 actuarial valuation of the Thomas Cook UK pension plan a 6 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 quarterly payments totalling £105.6m through to June 2014. During the year ended 30 September 2013 Thomas Cook UK paid four instalments totalling £26m in line with the recovery plan.

1  
Strategic report

2  
Directors' report

3  
Financial statements

**Transformation** the first 365 days

## Notes to the financial statements continued

**35 Retirement benefit schemes** *continued*

The fair value of scheme assets at the balance sheet date is analysed as follows

	2013 Long term rate of return %	2013 £m	2012 Long term rate of return %	2012 £m
Equities	7.0%	293.4	6.6%	319.3
Property	5.4%	80.9	4.9%	81.0
Fixed interest gilts	3.9%	278.3	3.1%	225.1
Hedge funds	7.0%	190.9	6.6%	143.9
Other	6.8%	46.1	5.6%	41.6
<b>At end of year</b>		<b>889.6</b>		<b>810.9</b>

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

The expected rates of return on scheme assets have been calculated as the weighted average rate of return on each asset class. The return on each asset class is taken as the market rate of return.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit pension schemes is as follows

	2013 £m	2012 £m
Present value of funded defined benefit obligations	998.2	888.2
Fair value of scheme assets	(889.6)	(810.9)
Deficit on funded retirement benefit obligations	108.6	77.3
Present value of unfunded defined benefit obligations	295.8	253.5
<b>Scheme deficits recognised in the balance sheet</b>	<b>404.4</b>	<b>330.8</b>
This amount is presented as follows		
Current liabilities	1.3	6.8
Non-current liabilities	403.1	324.0
	<b>404.4</b>	<b>330.8</b>

The cumulative net actuarial losses recognised in the statement of comprehensive income at 30 September 2013 were £435.8m (2012: £358.6m).

The history of the experience gains and losses of the schemes is as follows

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	1,294.0	1,141.7	1,074.3	1,117.9	993.0
Fair value of scheme assets	(889.6)	(810.9)	(743.3)	(703.4)	(621.9)
Scheme deficits	404.4	330.8	331.0	414.5	371.1
Experience adjustments on scheme liabilities	(3.1)	19.1	(9.4)	(10.1)	(7.7)
Experience adjustments on scheme assets	(34.9)	22.2	(24.1)	27.6	(13.7)

**Defined contribution schemes**

There are a number of defined contribution schemes in the Group, the principal scheme being the Thomas Cook UK DC Pension Scheme, which is open to all UK employees. The total charge for the year in respect of this and other defined contribution schemes, including liabilities in respect of insured benefits relating to workers' compensation arrangements, amounted to £36.7m (2012: £29.4m).

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

### 36 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and joint venture undertakings are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

#### Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group

	Associates, joint venture and participations*	
	2013 £m	2012 £m
Sale of goods and services	13.3	42.1
Purchases of goods and services	(11.5)	(22.9)
Other income	2.2	1.6
Interest receivable	0.2	0.3
Amounts owed by related parties**	4.8	23.2
Provisions against amounts owed	(2.7)	(3.9)
Amounts owed to related parties	(2.6)	(3.2)

\* Participations are equity investments where the Group has a significant equity participation but which are not considered to be associates or joint ventures.

\*\* Amounts owed by related parties in 2012 included £11.8m which was reported as part of the investment in Thomas Cook Personal Finance. During the year the group disposed of its investment in Thomas Cook Personal Finance.

All transactions are considered to have been made at market prices. Outstanding amounts will normally be settled by cash payment.

#### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report on pages 78 to 82 and 85 to 87.

	2013 £m	2012 £m
Short term employee benefits	5.3	3.3
Share based payments	0.1	—
	5.4	3.3

The short-term employee benefits figure includes employer social security payments which are excluded from the Directors' Remuneration Report.

### 37 Subsequent events

Subsequent to the balance sheet date and the approval of this financial information a number of events occurred that require disclosure.

#### Disposal of Egypt and Lebanon

On 7 October 2013 the Group announced it had sold 100% of Thomas Cook Egypt and Thomas Cook Lebanon to Yusuf Bin Ahmed Kanoo (Holdings) Co WLL of Bahrain for a cash consideration of £6.5m. At the balance sheet date the assets and liabilities have been classified as held for sale in accordance with IFRS.

#### Disposal of UK Corporate Foreign Exchange

On 18 November 2013 the Group announced it had sold its UK Foreign Exchange business, Thomas Cook CFX Ltd, to Moneycorp for a cash consideration of £4.5m.

#### Disposal of interest in the Airline Group (NATS)

On 19 November 2013 the Group announced it had agreed to sell 91.5% of its shareholding and loan note interests in The Airline Group Limited. The cash consideration is £38m.

#### Disposal of Neilson Active Holidays Ltd

On 25 November 2013 the Group announced it had agreed to sell Neilson Active Holidays Ltd for a consideration of £9.15m. The transactions are expected to complete in December.

**Transformation** the first 365 days

## Company balance sheet

At 30 September 2013

	notes	30 September 2013 £m	30 September 2012 £m
<b>Non-current assets</b>			
Property, plant and equipment	6	3 2	1 6
Investments in subsidiaries	7	2,167 4	2,054 7
Trade and other receivables	8	627 9	561 9
		<b>2,798 5</b>	<b>2 618 2</b>
<b>Current assets</b>			
Trade and other receivables	8	1,052 1	1,060 9
Cash and cash equivalents	9	46 3	26 1
		<b>1,098 4</b>	<b>1 087 0</b>
<b>Total assets</b>		<b>3,896 9</b>	<b>3,705 2</b>
<b>Current liabilities</b>			
Trade and other payables	10	(173 3)	(408 1)
Short term provisions	12	(0 7)	(2 0)
		<b>(174 0)</b>	<b>(410 1)</b>
<b>Non-current liabilities</b>			
Borrowings	13	(629 0)	(611 5)
<b>Total liabilities</b>		<b>(803 0)</b>	<b>(1 021 6)</b>
<b>Net assets</b>		<b>3,093 9</b>	<b>2,683 6</b>
<b>Equity</b>			
Called-up share capital	14	68 4	60 0
Share premium account		434 3	29 2
Merger reserve		1,429 0	1 429 0
Hedging and translation reserves		769 0	649 7
Capital redemption reserve		8 5	8 5
Retained earnings surplus		414 2	520 6
Investment in own shares		(29 5)	(13 4)
<b>Total equity</b>		<b>3,093 9</b>	<b>2,683 6</b>

The financial statements on pages 148 to 157 were approved by the Board of Directors on 27 November 2013

Signed on behalf of the Board

**Michael Healy**

Group Chief Financial Officer

Notes 1 to 19 form part of these financial statements

# Company cash flow statement

For the year ended 30 September 2013

	Year ended 30 September 2013 £m	Year ended 30 September 2012 £m
<b>Cash flows from operating activities</b>		
Loss before tax	(112 1)	(87 2)
Adjustments for		
Interest received	(0 5)	(2 2)
Interest paid	49 4	61 5
Depreciation of property, plant and equipment	0 3	0 2
Loss on disposal of assets	–	0 6
Share based payments	2 2	–
(Decrease)/increase in provisions	(1 3)	2 0
(Increase)/decrease in receivables	(55 8)	80 4
(Decrease)/increase in payables	(226 0)	65 0
<b>Net cash used in operating activities</b>	<b>(343 8)</b>	<b>120 3</b>
<b>Investing activities</b>		
Addition of fixed assets	(1 6)	–
<b>Net cash from investing activities</b>	<b>(1 6)</b>	<b>–</b>
<b>Financing activities</b>		
Inflow from borrowings	17 6	–
Interest paid	(49 4)	(61 5)
Dividends paid	–	(32 7)
Share issue	8 4	–
Net share premium on issue of shares	405 1	–
Investment in own shares	(16 1)	–
<b>Net cash from/(used in) financing activities</b>	<b>365 6</b>	<b>(94 2)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>20 2</b>	<b>26 1</b>
Cash and cash equivalents at beginning of year	26 1	–
Effect of foreign exchange rate changes	–	–
<b>Cash and cash equivalents at end of year</b>	<b>46 3</b>	<b>26 1</b>
Liquid assets	–	–
<b>Cash and cash equivalents at end of year</b>	<b>46 3</b>	<b>26 1</b>

1  
Strategic report

2  
Directors' report

3  
Financial statements

Let's  
go!

**Transformation** the first 365 days

## Company statement of changes in equity

For the year ended 30 September 2013

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 October 2011	59.2	29.2	1,588.0	8.5	888.7	446.8	(13.3)	3,007.1
Loss for the year	–	–	–	–	–	(87.2)	–	(87.2)
Other comprehensive expense	–	–	–	–	(239.0)	–	–	(239.0)
<b>Total comprehensive expense for the year</b>	–	–	–	–	(239.0)	(87.2)	–	(326.2)
Equity debit in respect of share-based payments	–	–	–	–	–	2.0	–	2.0
Issue of equity shares net of expenses	0.8	–	–	–	–	–	–	0.8
Release of merger reserve	–	–	(159.0)	–	–	159.0	–	–
Purchase of own shares	–	–	–	–	–	–	(0.1)	(0.1)
<b>At 30 September 2012</b>	<b>60.0</b>	<b>29.2</b>	<b>1,429.0</b>	<b>8.5</b>	<b>649.7</b>	<b>520.6</b>	<b>(13.4)</b>	<b>2,683.6</b>
Loss for the year	–	–	–	–	–	(112.1)	–	(112.1)
Other comprehensive expense	–	–	–	–	119.3	–	–	119.3
<b>Total comprehensive expense for the year</b>	–	–	–	–	119.3	(112.1)	–	7.2
Equity credit in respect of share-based payments	–	–	–	–	–	5.7	–	5.7
Issue of shares-exercise of warrants	8.4	–	–	–	–	–	–	8.4
Share Premium	–	405.1	–	–	–	–	–	405.1
Purchase of own shares	–	–	–	–	–	–	(16.1)	(16.1)
<b>At 30 September 2013</b>	<b>68.4</b>	<b>434.3</b>	<b>1,429.0</b>	<b>8.5</b>	<b>769.0</b>	<b>414.2</b>	<b>(29.5)</b>	<b>3,093.9</b>

The statement of changes in equity and Company cash flow statement for the year ended 30 September 2012 have been re-presented to include dividends received and Group relief not at the standard rate of UK tax within the loss for the year. This has no effect upon opening or closing retained earnings for the year.

The merger reserve arose on the issue of shares of the Company in connection with the acquisition of the entire share capital of Thomas Cook AG and MyTravel Group plc on 19 June 2007 and represents the difference between the nominal value and the fair value of the shares acquired. Following the impairment of the Company's investment in subsidiaries in the prior year, the Company has in accordance with the Companies Act 2006, relieved part of the impairment loss through a transfer from the merger reserve to retained earnings of £159.0m.

The share premium arose in connection with the issue of ordinary shares of the Company following the exercise of MyTravel executive share options.

At 30 September 2013 the Company had distributable reserves of £414.2m (2012: £520.6m).

Details of the own shares held are set out in note 29 to the Group financial statements.



# Notes to the Company financial statements

## 1 Accounting policies

The accounting policies applied in the preparation of these Company financial statements are the same as those set out in note 2 to the Group financial statements with the addition of the following

### Investments

Investments in subsidiaries are stated at cost less provision for impairment

These policies have been applied consistently to the periods presented

The functional currency of the Company is Euro, however the Directors have decided to adopt Sterling as the presentational currency to be in line with the consolidated accounts

## 2 Loss for the year

As permitted by section 408(3) of the Companies Act 2006, the Company has elected not to present its own income statement for the year. The loss after tax of the Company amounted to £112.1m (2012: £87.2m loss after tax)

The auditors' remuneration for audit services to the Company was £0.5m (2012: £0.4m)

## 3 Personnel expenses

	2013 £m	2012 £m
Wages and salaries	22.7	21.1
Social security costs	2.3	1.3
Share based payments	2.2	–
	27.2	22.4

	2013 Number	2012 Number
Average number of employees of the Company during the year	110	109

Employees are based in the United Kingdom and Germany

Disclosures of individual Directors' remuneration, share options, long-term incentive schemes, pension contributions and pension entitlements required by the Companies Act 2006 and specified for audit by the Financial Services Authority are on pages 78 to 82 and 85 to 87 within the Remuneration report and form part of these audited accounts

The employees of the Company are members of the Group pension schemes as detailed in note 35 of the Group financial statements

## 4 Tax

At the balance sheet date the Company had unused tax losses of £139.0m (2012: £37.5m) and other deductible short term temporary differences of £4.2m (2012: £9.0m) available for offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses and other deductible short term timing differences

## 5 Dividends

The details of the Company's dividend are disclosed in note 11 to the Group financial statements

1  
Strategic report

2  
Directors report

3  
Financial statements

**Transformation** the first 365 days

## Notes to the Company financial statements continued

**6 Property, plant and equipment**

Other fixed assets	£m
<b>Cost</b>	
At 1 October 2011	3 0
Disposals	(0 6)
Exchange differences	(0 2)
At 30 September 2012	2 2
Additions	1 6
Exchange differences	0 3
<b>At 30 September 2013</b>	<b>4 1</b>
<b>Accumulated depreciation and impairment</b>	
At 1 October 2011	0 4
Charge for the year	0 2
At 30 September 2012	0 6
Charge for the year	0 3
<b>At 30 September 2013</b>	<b>0 9</b>
<b>Carrying amount at 30 September 2013</b>	<b>3 2</b>
Carrying amount at 30 September 2012	1 6

**7 Investment in subsidiaries**

	£m
<b>Cost and net book value</b>	
<b>At 1 October 2011</b>	<b>2,619 8</b>
Adjustment in respect of share-based payments	1 8
Impairment	(367 0)
Exchange difference	(199 9)
<b>At 30 September 2012</b>	<b>2 054 7</b>
Adjustment in respect of share based payments	5 7
Additions	6 0
Exchange difference	101 0
<b>At 30 September 2013</b>	<b>2,167 4</b>

A list of the Company's principal subsidiary undertakings is shown in note 19 to the financial statements

The additions in the current year relate to the investment in Thomas Cook Finance plc (£6 0m). Adjustment in respect of share based payment charge related to subsidiaries' employees was £5 7m (2012 £1 8m)

During the year the Company did not recognise any impairment loss in relation to its investments in subsidiaries (2012 £367 0m)

**8 Trade and other receivables**

	2013 £m	2012 £m
<b>Current</b>		
Amounts owed by subsidiary undertakings	995 2	1,013 2
Other receivables	0 7	3 8
Deposits and prepayments	56 2	43 9
	<b>1,052 1</b>	<b>1,060 9</b>
<b>Non-current</b>		
Amounts owed by subsidiary undertakings	625 1	558 9
Deposits and prepayments	2 8	3 0
	<b>627 9</b>	<b>561 9</b>

Amounts owed by subsidiary undertakings are repayable on demand. The average interest on overdue amounts owed by subsidiary undertakings is 0 4% (2012 0 4%). The Directors consider the fair value to be equal to the book value.

## 9 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	46 3	26 1
	<b>46 3</b>	<b>26 1</b>

Cash and cash equivalents comprise of balances which are considered to be restricted. £46.2m (2012: £26.1m) is held within escrow accounts in Denmark and Norway in respect of local regulatory requirements. The Directors consider that the carrying amounts of these assets approximate their fair value.

## 10 Trade and other payables

	2013 £m	2012 £m
Amounts owed to subsidiary undertakings	121 3	368 9
Social security and other taxes	2 9	1 7
Other payables	21 1	19 7
Accruals	28 0	17 8
	<b>173 3</b>	<b>408 1</b>

The average interest on overdue amounts owed to subsidiary undertakings is 1.1% (2012: 0.7%).

Amounts owing to subsidiary undertakings are repayable on demand. The Directors consider the fair value to be equal to the book value.

## 11 Financial instruments

The Company's financial instruments comprise investment in subsidiary undertakings, amounts due to/from subsidiary undertakings, cash and cash equivalents, and other payables and receivables. The Company's approach to the management of financial risks is discussed on pages 30 and 31. The Company believes the value of its financial assets to be fully recoverable.

The carrying value of the Company's financial instruments is exposed to movements in foreign currency exchange rates (primarily Sterling). The Company estimates that a 5% strengthening in Sterling would increase loss before tax by £20.2m (2012: increase loss before tax by £26.6m), while a 5% weakening in Sterling would decrease loss before tax by £20.2m (2012: decrease loss before tax by £26.6m).

The carrying value of the Company's financial instruments is exposed to movements in interest rates. The Company estimates that a 0.5% increase in interest rates would increase loss before tax by £1.1m (2012: 0.5% increase in interest rates increase loss before tax by £0.1m), while a 0.5% decrease in interest rates would decrease loss before tax by £1.1m (2012: 0.5% decrease in interest rates decrease loss before tax by £0.1m).

### Carrying value of financial assets and liabilities

The carrying values of the Group's financial assets and liabilities as at 30 September 2013 and 30 September 2012 are set out below.

	Total other financial assets £m	Total other financial liabilities £m	Loans & receivables £m	Available for sale £m	Financial liabilities at amortised cost £m	Total £m
<b>At 30 September 2013</b>						
Non-current asset investments	2,167 4	–	–	–	–	2,167 4
Trade and other receivables	1,680 0	–	–	–	–	1,680 0
Cash and cash equivalents	46 3	–	–	–	–	46 3
Trade and other payables	–	(173 3)	–	–	–	(173 3)
Borrowings	–	–	–	–	(629 0)	(629 0)
Provisions arising from contractual obligations	–	(0 7)	–	–	–	(0 7)
	<b>3,893 7</b>	<b>(174 0)</b>	<b>–</b>	<b>–</b>	<b>(629 0)</b>	<b>3,090 7</b>

**Transformation** the first 365 days

## Notes to the Company financial statements continued

**11 Financial instruments** *continued*

At 30 September 2012	Total other financial assets £m	Total other financial liabilities £m	Loans & receivables £m	Available for sale £m	Financial liabilities at amortised cost £m	Total £m
Non current asset investments	2,054.7	–	–	–	–	2,054.7
Trade and other receivables	1,622.8	–	–	–	–	1,622.8
Cash and cash equivalents	26.1	–	–	–	–	26.1
Trade and other payables	–	(408.1)	–	–	–	(408.1)
Borrowings	–	–	–	–	(611.5)	(611.5)
Provisions arising from contractual obligations	–	(2.0)	–	–	–	(2.0)
	3,703.6	(410.1)	–	–	(611.5)	2,682.0

Financial liabilities are analysed below based on the time between the year end and their contractual maturity. The amounts shown are estimates of the undiscounted future cash flows and will differ from both carrying value and fair value. Any cash flows based on a floating rate are calculated using interest rates as set at the date of the last rate reset.

	Amount due		
	In less than 3 months £m	Between 3 and 12 months £m	Between 1 and 5 years £m
<b>At 30 September 2013</b>			
Trade and other payables	(22.5)	(127.9)	–
Borrowings	–	(45.9)	(735.1)
Provisions arising from contractual obligations	–	(0.7)	–
	(22.5)	(174.5)	(735.1)

	Amount due		
	In less than 3 months £m	Between 3 and 12 months £m	between 1 and 5 years £m
<b>At 30 September 2012</b>			
Trade and other payables	(15.4)	(368.3)	–
Borrowings	–	(44.8)	(762.9)
Provisions arising from contractual obligations	–	(1.3)	(0.7)
	(15.4)	(414.4)	(763.6)

## 12 Provisions

	2013 £m	2012 £m
At 1 October	(2 0)	–
Additional provision in the year	(0 7)	(2 0)
Release of provision	2 0	–
At 30 September	(0 7)	(2 0)

Provisions relate to provisions for severance costs

## 13 Borrowings

Borrowings comprise a €400m bond issued with an annual coupon of 6.75% maturing in June 2015 and a £300m bond with an annual coupon of 7.75% maturing in June 2017

## 14 Called-up share capital

The details of the Company's share capital are the same as those of the Group, and are disclosed in note 29 to the Group financial statements in this report

Details of share options granted by the Company are set out in note 34 to the Group financial statements

## 15 Operating lease arrangements

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

	2013 £m	2012 £m
Within one year	0 3	0 6
Later than one year and less than five years	1 2	2 4
After five years	1 5	0 7
	3 0	3 7

## 16 Contingent liabilities

At 30 September 2013 the Company had contingent liabilities in respect of counter-guarantees for bank funding, letters of credit and guarantees of amounts owed by subsidiaries amounting to £894.1m (2012: £707.5m). This predominately relates to a guarantee on the drawdown portion of the Group banking facility (detailed in note 20 to the Group financial statements)

Also included are guarantees related to aircraft finance lease commitments, estimated based on the current book value of the finance lease liabilities of £209.7m (2012: £249.9m)

The Company complies with all the standards relevant to consumer protection and formal requirements in respect of package tour contracts and has all the necessary licences. In the UK the customer's right to reimbursement of the return travel costs and amounts paid in case of insolvency or bankruptcy on the part of the tour operator or travel agency is guaranteed in line with legislation in the UK via a fund mechanism whereby travel companies are required to collect and remit a small charge for each protected customer upon booking

**Transformation** the first 365 days

## Notes to the Company financial statements continued

**17 Related party transactions****Subsidiaries**

The Company transacts and has outstanding balances with its subsidiaries. The Company enters into loans with its subsidiaries, at both fixed and floating rates of interest, on a commercial basis. Hence, the Company incurs interest expense and earns interest income on these loans. The Company also received dividend income from its subsidiaries during the year.

	2013 £m	2012 £m
<b>Transactions with subsidiaries</b>		
Interest receivable	0.5	2.2
Interest payable	(1.4)	(4.0)
Management fees and other expenses	15.8	12.7
Dividend income received	41.2	292.8
<b>Year-end balances arising on transactions with subsidiaries</b>		
Loans receivable	869.9	835.3
Interest receivable	0.4	0.6
Other receivables	124.9	177.3
Loans payable	(71.6)	(322.5)
Other payables	(50.2)	(46.4)

**Remuneration of key management personnel**

The remuneration of the Directors, who are the key management personnel of the Company, is set out in note 36 of the Group financial statements.

**18 Share-based payments**

The employees of the Company, including the Directors, collectively participate in all of the Group's equity-settled share-based payment schemes. The details relating to these schemes in respect of the Company are identical to those disclosed in note 34 to the Group financial statements and have therefore not been re-presented here.

The share-based payment charge of £2.2m (2012: nil) is stated net of amounts recharged to subsidiary undertakings.

## 19 Principal subsidiaries

	Country of incorporation and operation	Nature of the business	Proportion held by Company (%)	Proportion held by Group (%)
<b>Direct subsidiaries</b>				
Thomas Cook Investments (2) Limited	England	Holding Company	100	100
Thomas Cook AG	Germany	Holding Company	100	100
Thomas Cook Finance plc	England	Financing Company	100	100
<b>Indirect subsidiaries</b>				
<b>UK</b>				
Thomas Cook Airlines Limited	England	Airline		100
Thomas Cook Retail Limited	England	Travel Agent		100
Thomas Cook Scheduled Tour Operations Limited	England	Tour Operator		100
Thomas Cook Tour Operations Limited	England	Tour Operator		100
Thomas Cook UK Limited	England	Tour Operator		100
TCCT Retail Limited	England	Tour Operator		100
Neilson Active Holidays Limited*	England	Tour Operator		100
<b>Continental Europe</b>				
Bucher Reisen GmbH	Germany	Tour Operator		100
TC Touristik GmbH	Germany	Tour Operator	50 0023	
Thomas Cook Airlines Belgium NV	Belgium	Airline		100
Thomas Cook Belgium NV	Belgium	Tour Operator		100
Thomas Cook SAS	France	Tour Operator and Travel Agent		100
Thomas Cook Austria AG	Austria	Tour Operator		100
Neckermann Polska Biuro Podrozy sp z o o	Poland	Tour Operator		100
<b>Northern Europe</b>				
Thomas Cook Airlines Scandinavia A/S	Denmark	Airline		100
Thomas Cook Northern Europe AB	Sweden	Intermediate Holding Company		100
<b>North America</b>				
Thomas Cook Canada Inc **	Canada	Tour Operator		100
<b>Airlines Germany</b>				
Condor Berlin GmbH***	Germany	Airline	50 0023	
Condor Flugdienst GmbH***	Germany	Airline	50 0023	
<b>Corporate</b>				
Thomas Cook Group Treasury Limited	England	Financing Company		100

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. A full list of subsidiaries will be sent to Companies House with the next annual return.

\* As explained in note 37 to the Group accounts, on 25 November 2013, the Group announced it had agreed to sell Neilson Active Holidays Limited. Its results for the year end 30 September 2013 have been included within the Group Income Statement and its assets and liabilities have been classified as held for sale in accordance with IFRS 5.

\*\* As explained in note 16 to the Group accounts, on 1 May 2013, the Group sold Thomas Cook Canada Inc. In accordance with IFRS the results of the North America business have been included as discontinued operations.

\*\*\* All risks and rewards continue to be held by the Group and, in accordance with accounting standards, the entity has been treated as being 100% controlled and fully consolidated by the Group.

1  
Strategic report2  
Directors' report3  
Financial statementsLet's  
go!

**Transformation** the first 365 days

## Shareholder information

**Annual General Meeting ('AGM')**

The AGM will be held at 1<sup>st</sup> Floor North Building 200 Aldersgate, St Pauls, London EC1A 4HD on Thursday 20 February 2014 at 10 30am. The last date for AGM proxy votes to be received by the Registrar is Tuesday 18 February 2014.

All shareholders can submit their proxy vote for the AGM electronically at [www.sharevote.co.uk](http://www.sharevote.co.uk). To register their vote, shareholders will need the numbers detailed on their form of proxy.

Alternatively, shareholders who have already registered with Shareview can submit their proxy vote by logging on to [www.shareview.co.uk](http://www.shareview.co.uk) and clicking on the link to vote underneath their Thomas Cook Group plc holding.

**Share register and shareholder enquiries**

The Company's share register is maintained by Equiniti. Queries relating to Thomas Cook Group plc shares should be addressed to:

The Registrar  
Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Tel 0871 384 2154\*  
(International telephone number +44 (0)121 415 0182)

\* Calls to this number cost 8p per minute plus network extras. Lines are open 8 30am to 5 30pm (London time) Monday to Friday (excluding UK public holidays).

Shareholders should quote the Company reference number 3174 and their shareholder reference number (which can be found on their share certificates), when contacting the Registrar.

**Shareview**

To be able to access information about their shares and other investments online, shareholders can register with Shareview ([www.shareview.co.uk](http://www.shareview.co.uk)). Registration is free; shareholders will need their shareholder reference number which is shown on their form of proxy and share certificate. By registering for this service, shareholders will:

- > help reduce paper, print and postage costs,
- > help the environment
- > be able to submit their queries by email, and
- > be able to manage their shareholding easily and securely online.

Once registered, whenever shareholder documents are available, shareholders will be sent a link to the appropriate website, where the documents will be available to view or download. Receiving documents online does not affect shareholders' rights in any way.

**Website**

The Company's corporate website [www.thomascookgroup.com](http://www.thomascookgroup.com), provides information including:

- > news, updates, press releases and regulatory announcements,
- > investor information, including the Annual Report, financial results, financial calendar and share price information,
- > details of shareholder meetings and poll results
- > biographies of the Board of Directors
- > the Company's Articles of Association, the terms of reference for the Committees of the Board and the Board Appointments Policy and
- > sustainability reporting.

**Multiple accounts on the share register**

If a shareholder receives two or more sets of the documents concerning the AGM, this means that there is more than one account in their name on the shareholder register, perhaps because either the name or the address appears on each account in a slightly different way. For security reasons, Equiniti will not amalgamate the accounts without the shareholder's written consent. Therefore, if a shareholder would like their multiple accounts to be combined, they should write to Equiniti at the address above, detailing the different shareholder reference numbers, and request that they be combined into one account.

**Electronic communications**

At the AGM on 10 April 2008, the Company passed a resolution allowing the Company's corporate website to be used as the primary means of communication with its shareholders. A consultation card was sent to shareholders enabling them to choose either to:

- > receive notification by email when shareholder documentation is available on the website, or
- > continue to receive shareholder documentation in hard copy.

Shareholders who did not respond were deemed, in accordance with the Companies Act 2006, to have agreed to receive shareholder documentation via the Company's corporate website. These arrangements for electronic shareholder communications provide shareholders with the opportunity to access information in a timely manner and help the Company to reduce both its costs and its environmental impact.



## Dividends

Information on recent dividend payments is detailed below

Name	Final dividend for the financial year ended 30 September 2009	Interim dividend for the financial year ended 30 September 2010	Final dividend for the financial year ended 30 September 2010	Interim dividend for the financial year ended 30 September 2011
Amount per share	7 00p	3 75p	7 00p	3 75p
Record date	19 March 2010	10 September 2010	18 March 2011	9 September 2011
Payment date	8 April 2010	8 October 2010	7 April 2011	7 October 2011

No further dividends have been paid or declared since the interim dividend for the financial year ended 30 September 2011, paid on 7 October 2011

## Thomas Cook AG/MyTravel Group plc merger

Thomas Cook Group plc was formed in June 2007 upon the merger of Thomas Cook AG and MyTravel Group plc

MyTravel Group plc shareholders received one Thomas Cook Group plc ordinary share for every one MyTravel Group plc share previously held. MyTravel Group plc share certificates are no longer valid and can be destroyed. Replacement Thomas Cook Group plc share certificates were sent to shareholders who held shares in certificated form on or around 19 June 2007. If you have any queries relating to this, please contact the Registrar.

## Warning to shareholders about share fraud

Fraudsters use persuasive and high pressure tactics to lure investors into scams.

They may offer to sell shares that turn out to be worthless or non-existent or to buy shares at an inflated price in return for an upfront payment.

While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

5,000 people contact the Financial Conduct Authority about share fraud each year with victims losing an average of £20,000.

## How to avoid share fraud

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- 1 Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- 2 Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- 3 Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA.
- 4 Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- 5 Use the firm's contact details listed on the Register if you want to call it back.
- 6 Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- 7 Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
- 8 Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- 9 Think about getting independent financial and professional advice before you hand over any money.
- 10 Remember if it sounds too good to be true, it probably is!

## Report a scam

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at [www.fca.gov.uk/scams](http://www.fca.gov.uk/scams), where you can find out about the latest investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

**Transformation** the first 365 days

## Shareholder information continued

**ShareGift**

Shareholders with a small number of shares, the value of which make it uneconomical to sell, may wish to consider donating them to the charity ShareGift (Registered Charity Number 1052686), which specialises in using such holdings for charitable benefit. Find out more about ShareGift at [www.sharegift.org](http://www.sharegift.org) or by telephoning +44 (0)20 7930 3737.

**Shareview dealing**

A telephone and internet dealing service has been arranged through the Registrar to provide a simple way of buying and selling Thomas Cook Group plc shares for existing and prospective UK-based shareholders. For telephone dealing call 08456 037 037 (international telephone number +44 (0)121 415 7560) between 8 00am and 4 30pm (London time), Monday to Friday (excluding UK public holidays), or visit the website [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). Shareholders will need the shareholder reference number shown on their share certificate(s).

**Analysis of shareholders as at 30 September 2013**

Distribution of shares by the type of shareholder	Number of holdings	Number of shares
Nominees and institutional investors	1,434	1 433,441 170
Individuals	15,630	19,962 057
Total	17,064	1 453 403,227

Size of shareholding	Number of holdings	Number of shares
1–100	9,282	300 159
101–500	3 307	782,050
501–1,000	1,055	791,626
1,001–10,000	2,426	8 825 861
10 001–100 000	619	18,257 807
100 001–500,000	162	39,110,074
500,001–1 000,000	52	35,300 709
1 000,001 and above	161	1,350,034,941
Total	17,064	1 453 403,227

**Registered office**

3rd Floor South Building, 200 Aldersgate London EC1A 4HD

Registered Number 6091951

**Shareholder contacts**

Shareholder Helpline 0871 384 2154\*  
(International telephone number +44 (0)121 415 0182)  
Website [www.thomascookgroup.com](http://www.thomascookgroup.com)

Registrar's website [www.shareview.co.uk](http://www.shareview.co.uk)

\*Calls to this number cost 8p per minute plus network extras. Lines are open 8 30am to 5 30pm (London time) Monday to Friday (excluding UK public holidays).

**Financial calendar**

Date	Event
11 February 2014	Q1 2014 Interim Management Statement
20 February 2014	Annual General Meeting
15 May 2014	Interim results for 6 months ended 31 March 2014
31 July 2014	Q3 2014 Interim Management Statement

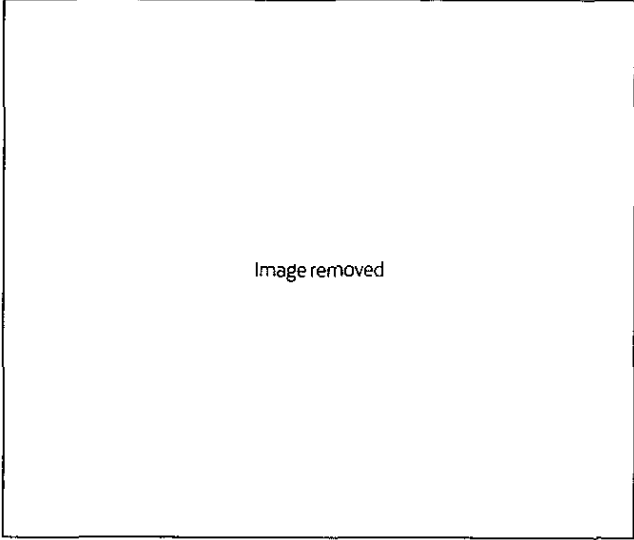


Image removed

### **[www.thomascookgroup.com](http://www.thomascookgroup.com)**

The Thomas Cook Group website provides news and details of the Group's activities, plus links to our customer sites and up-to-date information, including

- > corporate news
- > presentations
- > share price data
- > historic Annual & Sustainability Reports
- > half-year results and interim management statements
- > news alerts



Logo removed

This report is printed on Hello Far Matt produced at a mill certified to the ISO14001 and EMAS environmental management standards

Manufactured using responsible sources and is FSC certified

This report is fully recyclable and biodegradable

Designed and produced by Radley Yeldar

Printed by Park Communications

---

**Thomas Cook Group plc**

3rd floor, South Building

200 Aldersgate

London EC1A 4HD

**[www.thomascookgroup.com](http://www.thomascookgroup.com)**

Logo removed